

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Monday April 25 1983

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Arms sales and the
U.S.: Europe's patience
wears thin, Page 18

NEWS SUMMARY

GENERAL

Soviet Union expels American by 41%

Soviet newspaper Pravda said an American vice-consul in Leningrad, D. Shorer, had been expelled for allegedly spying. He was said to have been collecting material from a "dead-letter" box.

A U.S. embassy official in Moscow said that staff had no recollection of anyone with a name like Shorer working in the Leningrad consulate.

Moscow stepped up the pressure in the propaganda war. Senior foreign affairs expert Leonid Zaryanov said relations with the U.S. were unlikely to improve while President Ronald Reagan was in power. The Soviet Government condemned Washington's refusal to sign the United Nations law of the sea, accusing the U.S. of trying to wreck the orderly exploitation of marine resources.

In Washington, officials said the expulsion of two Soviet officials and the departure of a third was not in retaliation for the previous expulsion of a U.S. diplomat from Moscow.

Wroclaw arrest
Polish police have arrested in Wroclaw Jozef Pinior, said to be a member of the banned Solidarity movement's underground wing. He is accused of anti-state activity and having used big sums of money, including Western currency, on his activities.

Turks lift ban
Turkey's military rulers lifted the ban on political activities imposed in 1980, in preparation for a general election this autumn or early next year.

Mozambique claim
Mozambique said its forces intercepted a group of South African agents, who then fled, inside the country last week and captured explosives.

French cable plan
France plans to open a fourth television channel next May, with what Communications Minister Georges Fillard says is the world's first national cable TV system.

Appeal to Queen
A group seeking to visit the graves of Argentine soldiers killed in the Falklands has sent a telegram to Queen Elizabeth "as the mother of a soldier in that war" to intercede with the British Government to lift its ban on the trip.

Oil slick talks reopen
Ministers from eight Gulf countries, including Kuwait, Iraq and Iran, resume talks in Kuwait today on the major oil slick that is threatening desalination work and marine life. Iran has admitted it is losing \$500,000 a day from the oil leak.

Catalan protest
In a Catalan protest attended by 6,000 in central Barcelona the Spanish flag was burned and an election kiosk belonging to the ruling Socialist Party set on fire.

Space encounter
U.S. spacecraft Pioneer 10 passes the planet Pluto today on what is the furthest journey into space of a man-made craft. It carries messages for any intelligent life it may encounter.

Briefly
French container ship sailed into Hong Kong with 107 Vietnamese refugees it picked up in the South China Sea.
Uppsala, Sweden: Church leaders from 60 countries urged the destruction of all nuclear weapons within five years.

BUSINESS

Jaguar car output rises by 41%

OUTPUT of Jaguar cars, the luxury saloon produced by the British Lagard group, was up by 41 per cent in the first quarter of 1983, following sharply increased demand. Major improvements in productivity were made. Half the sales were in the U.S., and Jaguar is making a strong effort to increase its German sales. Page 29

● D-MARK lost ground last week, especially against the dollar, as profits were taken after the latest realignment within the European Monetary System. This prompted considerable central bank support, and by the end of the week the D-Mark was looking steadier.

The Dutch guilder was also weak, pushing Dutch interest rates firmer and prompting central bank support. Recent strength of the Danish krone enabled the central bank to cut its discount rate on Thursday to 7½ per cent from 8½ per cent. The Italian lira remained the strongest currency.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2½ per cent. The lower chart gives each currency's divergence from its "central" equivalent in the European Currency Unit (ECU), itself a basket of European currencies.

● EGYPT, not an Opec member, is to raise the price of its key Suez blend oil by 50c to \$25.50 a barrel. Egypt and the Soviet Union have signed an agreement on scientific and cultural co-operation. Page 3

● COSTA RICA's central bank has signed a preliminary agreement with 170 foreign private banks to reschedule \$880m debts. Page 3

● OPEC said to developing countries in 1981 was four times as much, as a proportion of national gross domestic product, as that given by Western industrialised nations, said OECD.

● OECD countries' unwritten consensus agreement on limiting competition in export finance could expire this week without a clear decision on its replacement at the Paris meeting which opens today. Page 20

● U.S. AND JAPAN plan to resume Washington talks this week on Japanese restrictions on imports of U.S. beef and citrus fruit. U.S. will also discuss with the UK in Washington this week its insistence on investigation alleged price-fixing on North Atlantic air routes.

COMPANIES
● ALLIED CORPORATION, U.S. industrial conglomerate, is to buy the chemical operation of troubled New York group Cal for \$410m.

● FRED OLSEN, the Norwegian shipping group, increased operating profit 65.7 per cent last year to Nkr 240m (\$34.5m). Page 22

● UCB, Belgian chemicals group increased 1982 profits 239 per cent to Bfr 872m (\$17.9m), and plans a June rights issue. Page 22

Kreisky resigns as Socialists lose their majority

BY W. L. LUETKENS IN VIENNA

Dr Bruno Kreisky, Chancellor of Austria since 1970, announced last night that he was resigning when it had become clear that his Socialist Party had lost its absolute majority in Parliament.

The provisional official result of the election was Socialists, 90 seats, and 47.8 per cent of 4.8m valid votes cast (last election: 93 seats, and 51 per cent); conservative People's Party, 81 seats and 43.2 per cent (77 seats, 42 per cent); conservative Freedom Party, 12 seats and 5 per cent (11 seats, 6 per cent).

A drawn-looking Dr Kreisky said before the television cameras that it was up to his party to decide who would succeed him. It is known that he would like Hans Fiedlitz, the vice-chancellor and a jovial exponent of the Austrian consensus politics to become the next chancellor.

The conservative People's Party is the clear winner of the elections, even though it added only 1.3 percentage points to its vote. The People's Party knew it could not pull ahead of the Socialists and most of its officials are pinning their hopes on a revival of the Grand Coalition with the Socialists, which was in office from 1971 until 1980.

Dr Kreisky spoke strongly during the campaign against the revival of such a coalition, but last night was

non-committal when asked about its possible reconstitution.

The next move is with President Rudolf Kirchschlager, a non-party man. He has undertaken to call up on the largest party to form the government. That means the Socialists, although the president can also indicate a preference for the colour of coalition he prefers.

The retiring chancellor left open how much influence he would wish to continue to exert in the politics of his country. He would remain leader of the Socialist Party for the present, and must thus have considerable influence on his successor in the party and presumably, in the chancellor's office.

Theoretically, a coalition of the People's Party and the Freedom Party is possible, although it would be extremely hard to govern Austria against the Socialists.

The People's Party, led by Dr Alois Mock, has made a clear impression with his campaign argument that the Socialist Government has driven the budget into intolerable deficit. Dr Mock also argues

that the Socialists have leaned over too far to finance the deficits of state-owned industry, above all steel, instead of using tax cuts and incentives to encourage small private industry.

The Socialists ran largely on their economic record - an inflation rate that has regularly been below Western European averages and is expected to drop to 2.7 per cent this year, and an unemployment ratio expected to rise to a modest 4.5 per cent.

At the same time Austria has, since 1982, run an unaccounted current account surplus.

It is internationally recognised that these are good figures, but in security-minded Austria the unemployment ratio is considered uncomfortably high. Dr Mock pursued this point throughout the campaign.

This security-mindedness probably accounts for the unexpectedly poor showing of the Greens - both a middle-class group and one of the non-Communist far left. Both had been given chances of getting into Parliament.

U.S. optimism on Shultz Mid-East peace visit

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

MR GEORGE SHULTZ, the U.S. State Secretary, left for the Middle East last night amid cautious optimism in Washington that his two-week mission could help to break the impasse over President Ronald Reagan's peace plan for the region.

Mr Shultz said before leaving that the desire for peace in the Middle East was not dead despite King Hussein of Jordan's refusal to join wider peace talks, and last week's bombing of the U.S. Embassy in Beirut.

He said Arab leaders had indicated that they might reconsider the Reagan peace initiative, first launched last September.

In an interview with the Washington Post newspaper, Mr Shultz said: "It does seem to me there's a certain slack that has to be held as I read the cables from the various Arab capitals, in which people are saying to themselves, 'Are we really going to pass this up? Maybe we can't afford to do that.'"

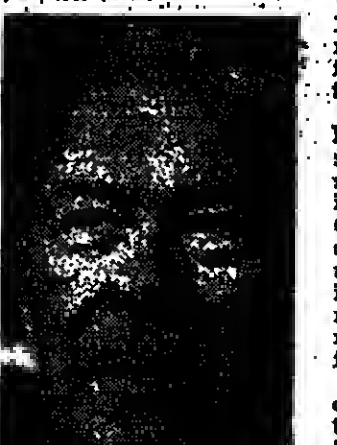
Mr Shultz is to begin his talks in Cairo today. He will then go on to Israel, Beirut, and possibly other countries, such as Jordan, Syria and Saudi Arabia, under what is described as a flexible itinerary.

His first aim will be to try to bring the Israeli-Lebanese negotiations on foreign force withdrawals from Lebanon to a successful conclusion - hopefully opening the way to wider peace talks.

Other Administration officials said they hoped that Mr Shultz's first trip to the area since taking office nine months ago would prompt Israel to make concessions in the force withdrawal talks that have dragged on for four months.

Both Lebanon and Israel must show more flexibility, they said, but it was primarily up to the Israelis to change their demands for ensuring the future security of their northern border. A final agreement was "not out of the question", they added.

Mr Shultz warned, however, that there could still be a problem persuading the 40,000 Syrian and



Mr George Shultz: two-week mission

10,000 Palestinian Liberation Organisation (PLO) troops to withdraw from Lebanon, even if Israel agreed to pull out its 22,000-strong army.

While the Syrians had consistently said they would withdraw at the same time as the Israelis, "they seem to have changed their pitch" in the past week or so, he said.

● The Israeli Cabinet yesterday discussed the possibility of staging a partial, unilateral withdrawal of its forces in Lebanon, if no agreement can be reached with the Beirut government over Israel's terms for a complete withdrawal.

The Cabinet did not make any decision on this proposal, preferring to leave the issue open until Mr Shultz has made his attempt to reach an agreement over the Lebanese issue.

Officials in Jerusalem expressed mixed feelings about the trip by the Secretary of State who is due in Israel on Wednesday from Cairo.

On the one hand they said they hoped that he could persuade Lebanon "to act in its own interests", and ignore the pressures from the other Arab countries.

● President Mubarak of Egypt welcomed Mr Shultz's visit and said it was "vital and important" not just in the search for a peace agreement but also to the image of the U.S., writes Charles Richards from Cairo.

The Egyptian leader took issue with President Reagan over the role of the PLO.

ment in Britain last year totalled just over DM 1bn (\$406.7m) - more than in any country apart from the U.S. This was also about DM 400m more than direct investment by British enterprises in West Germany.

On the trade side, the West Germans boosted their deliveries to Britain by nearly 20 per cent to DM 31.3bn, while Britain's exports to Germany fell by 1.4 per cent to DM 27.1bn.

The fall in the British figure was caused by a drop in overall West German imports of crude oil - where Britain is now the Federal Republic's second biggest supplier after Saudi Arabia. If oil is excluded, then Britain's other exports to West Germany rose by a modest 1.7 per cent.

Fanfani may step down this week

By James Sutton in Rome

SIG AMINTORE FANFANI, the Italian Prime Minister, whose five-month-old government was doomed last Friday by the decision of the Socialist Party to withdraw its support, is expected to resign towards the end of this week.

Despite a fierce rejection at the weekend by Sig Ciriaco De Mita, the Christian Democrat leader, of the Socialist demand for general elections on June 26, there is growing consensus among political observers that there will be general elections in June, a year before they are due.

Sig Fanfani met President Sandro Pertini on Saturday. Later it was announced that the Prime Minister would go before the Senate on Thursday for a debate on the situation caused by the withdrawal of the Socialists, whose support is essential to the survival of the four-party coalition, which also includes Social Democrats and Liberals.

But this is only a formality designed to lend some dignity to the fall of yet another government. After the debate, the Prime Minister is expected to go to the Quirinal Palace to resign.

Sig de Mita portrayed the move of Sig Bettino Craxi, the Socialist leader, as blatantly opportunistic, intended purely to cash in on a possible increase in the Socialist vote in a general election. He attacked Sig Craxi for lacking any plan for a future administration, while bringing down a government that the Socialist leader himself acknowledged to have been successful.

But while wishing to pin the blame firmly on the Socialists for bringing down the Fanfani Government, there is a limit to how far the Christian Democrats are able, or may be willing, to press their professed opposition to early elections.

Though President Pertini - who has in the past strongly opposed the idea of prematurely dissolving Parliament - has not yet publicly declared his hand, there are restrictions on how much he can do to keep the legislature alive. Even if a Christian Democrat minority government, without Socialist support, were formed it would be at best a short-term expedient.

To Christian Democrats, it might seem rather pointless to fight to postpone elections for only a few months, instead of combining them with the regional elections scheduled for June 26, as the Socialists propose.

Parliament must be dissolved by May 11 for general elections to take place in June 26 after the minimum 49 days campaign.

Under the new agreement, which will run through to the middle of

BankAmerica in Seafirst rescue bid

BY WILLIAM HALL IN NEW YORK

BANKAMERICA CORPORATION is mounting a \$400m rescue of the financially troubled Seafirst Corporation, which involves the biggest merger across state lines in U.S. banking history.

BankAmerica is the parent of Bank of America, one of the largest banks in the world.

The deal, announced late on Saturday, follows mounting speculation in recent weeks about the future of Seafirst, the biggest banking group in the state of Washington and the 29th biggest in the U.S. The bank has run into severe financial difficulties as a result of its energy loan portfolio - a large part of which was bought from the Penn Square Bank of Oklahoma City, which collapsed last July.

Seafirst lost \$91.3m in 1982 as a result of its need to make provisions of \$170m on its \$1.1bn energy loan portfolio. It announced over the weekend a net loss of \$133.6m for the first quarter of 1983 and revealed net loan losses on its energy lending of \$61m. This brings its total loan losses on energy lending since the trouble first broke last summer to \$180m.

Seafirst also revealed over the weekend that its non-performing assets had risen to \$897m, which is equal to 13 per cent of its \$7.4bn loan portfolio. These assets earn no interest or interest at a reduced rate. Roughly a third of the bank's energy loans are understood to be non-performing at present.

The scale of Seafirst's first quarter losses are considerably worse

than the financial markets had been expecting and have knocked close to a third off the group's equity base since the end of 1982. Shareholders equity now totals \$323m against \$583m, 12 months ago.

Given the scale of the losses, there was a very real fear that the announcement of the first quarter losses would result in a loss of confidence in the bank. Last week, Seafirst had been trying to raise \$200m of new capital, without losing its independence.

But it appears that its financial situation was so serious that it had little option but to agree to a takeover by BankAmerica.

Banking legislation has generally prohibited a bank in one state from taking over a bank in another. However, Washington State is changing its laws to permit takeovers of local banks by out of state banks and the Seafirst merger is conditional on these laws being passed, plus agreement by several other regulatory bodies.

Under the terms of the deal, shareholders in Seafirst will receive \$250m. Half of this will be in cash and the rest in non-voting preferred stock with a stated value of \$25 per share. In addition, BankAmerica will inject \$150m of primary capital into Seafirst's principal subsidiary, Seattle-First National Bank, on completion of the merger.

Mr Richard Cooley, who was brought in from Wells Fargo at the beginning of the year to head Seafirst, is expected to remain.

Continued on Page 20

Auto workers end Caterpillar strike

BY RICHARD LAMBERT IN NEW YORK

A STRIKE, which for more than 200 days has paralysed the U.S. operations of Caterpillar Inc., the world's leading manufacturer of earth moving and construction equipment, ended over the weekend. Members of the United Auto Workers Union (UAW) voted by a majority of more than two to one to accept a new three-year labour contract which, they claimed, was significantly more generous than the company had planned to offer.

The union said that Caterpillar's attempt to "emasculate the contract" had failed.

Under the new agreement, which will run through to the middle of

1986, workers will not receive the automatic 3 per cent annual wage increase which has been a traditional part of previous contracts. Instead, they will participate in a new profit-sharing plan, which includes a guaranteed payment whether or not the company makes a profit.

In another key issue in the dispute, the two sides have reached a compromise on the question of attendance bonuses. Workers will no longer receive paid time off in return for good attendance, but will get a cash bonus instead.

Workers will continue to receive

Continued on Page 20

Bonn and UK in trade talks

BY JONATHAN CARR IN BONN

A TOP-LEVEL West German industry and banking delegation will discuss prospects for boosting trade and investment links with Britain during two days of talks starting in London today.

Despite the commercial importance of each country for the other, this is the first visit by a senior German business group since 1977 when the Labour Party was in power in Britain.

The German side is thus anxious to see at first hand what has changed, for example, in Britain's industrial relations, and how the Conservative Government sees the economic prospects.

Heading the agenda will be talks with the Prime Minister, Mrs Margaret Thatcher, the Chancellor of the Exchequer, Sir Geoffrey Howe,

and with representatives of both the Confederation of British Industry (CBI) and the Trade Union Congress (TUC).

The 15-member German group is led by the president of the Federation of German Industry (BDI), Dr Rolf Rodenstock. Among its members are Hans Rudolf von Bennigsen-Foerster, head of the VEB energy group; Dr Dieter Spethmann, chairman of the Thyssen steel and engineering concern; and Dr Herbert Grunwald, head of the Bayer chemicals giant.

Representatives of the electrical, building and aerospace sectors, as well as members of the Deutsche and Dresdner Banks, round off the party.

West German new direct invest-

ment in Britain last year totalled just over DM 1bn (\$406.7m) - more than in any country apart from the U.S. This was also about DM 400m more than direct investment by British enterprises in West Germany.

On the trade side, the West Germans boosted their deliveries to Britain by nearly 20 per cent to DM 31.3bn, while Britain's exports to Germany fell by 1.4 per cent to DM 27.1bn.

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Willemstad, Curacao, April 1983

The Managing Directors

OVERSEAS NEWS

Brussels plan for young jobless

BY JOHN WYLES IN BRUSSELS

EEC GOVERNMENTS are being urged to adopt a new strategy for creating 2.5m jobs for the young. In the same week the European Parliament will express its concern for the jobless at its first special session in Brussels for 26 years.

The European Commission's proposals on youth unemployment have been rushed out partly in order to satisfy the Parliament that Mr. Ivor Richard, the Social Affairs Commissioner, is doing all he can about unemployment.

Mr. Richard's approach is to lay out a set of policy actions and to urge member states to adopt all of them. Some are already being operated across the Community. Mr. Richard believes that a consistent and

common approach, backed by 6600m a year of EEC money, could create in five years 2.5m jobs for the young.

The Commission is proposing five approaches:

- Creation of new jobs through the reorganisation and reduction of working time with a deliberate bias towards benefiting the young;
- Use of recruitment premiums to encourage employers to create new jobs;
- help for young people start their own businesses;
- expansion of publicly-funded employment with special concentration on absorbing young people;
- better support for the non-vocational interests of the young.

The Commission claims that these actions would bring youth unemployment down to the average for adults. At the moment, the jobless rate among the under 25s is nearly 20 per cent, compared to an adult rate of 10 per cent. Over 2m young people have been out of a job for more than six months, and almost 1.5m for more than a year.

The Parliament is expected to have much to say on the problem during its day and a half session in Brussels on Wednesday and Thursday. The debates are unlikely to have any concrete results, although they will exert some pressure on the Commission and member governments.

For many MEPs the fact of sitting in Brussels will be as important as the subject under discussion. The decision was taken in a surprise vote in February and represents a victory for those members who want to hold all of their meetings in one place—preferably Brussels—rather than divide their working existence between Brussels and Strasbourg, Luxembourg has been almost eliminated as a meeting place.

In Luxembourg today Community Foreign Ministers will meet for their regular monthly session. They will discuss ways of overcoming the community's financial crisis and the associated problem of Britain's contribution to the Community Budget.

W. German shipyards in cuts pact

By John Davies in Frankfurt

WEST GERMANY'S four northern coastal states have reached an agreement envisaging cutbacks in shipyard capacity and further job losses, while calling for further government aid.

The agreement involves bitter concessions by the Social Democratic government of Hamburg, which has been fighting to preserve traditional work and jobs. A common and realistic approach by the states was one pre-condition set by the federal Government in Bonn for any re-thinking of its already substantial programme of shipyard aid.

The states see the need for government help of DM100m (64.1m) a year for three years to promote investment, co-operation between shipyards, and diversification into related work and research. They also want a further DM 60m a year for three years to be spent on subsidising contracts.

Hard bargaining now lies ahead—to decide how any new government aid can be financed from federal and state budgets, and to get the industry's co-operation.

The coastal states have made a gesture to Bonn by describing their proposals as assistance for the industry's own measures to adapt.

They also insist that the big shipyards must not benefit from aid at the expense of small and medium-sized yards.

Inconclusive result in Iceland poll

The results of Iceland's parliamentary elections on Saturday are totally indecisive and will most likely cause a long and difficult political crisis, Jon Magnusson reports from Reykjavik. Dr. Gunnar Thoroddsen, the Prime Minister, said yesterday: "No clear lines emerged from the elections and the political parties cannot say how long it will take for a new government to be formed."

The outgoing coalition of Progressives and People Alliance Parties under a former Independence Party premier has been without a clear majority in Parliament since last autumn. It will most likely resign in the next few days but remain as caretaker until a new government can be formed.

The chaotic economic situation in Iceland needs immediate austerity measures—a fact that puts heavy pressure on the parties to form a workable coalition.

French hopes on trade deficit fade

By Our Paris Correspondent

THE FRENCH Government has practically given up hope of cutting the country's trade deficit by half this year, one of the main aims behind the package of austerity measures announced last month.

This follows the announcement at the weekend that the trade deficit for March, although down from the figures of January and February, continued at the uncomfortably high level of FFr 6.58bn (844m) on a seasonally adjusted basis. A prime reason for the scaling down of the trade target is the unexpected continuing strength of the dollar, which is pushing up import prices, particularly of oil.

The March deficit was down from FFr 8.0bn in January and FFr 7.6bn in February, but it brought the trade imbalance for the first three months of the year to FFr 23.8bn.

This is roughly 50 per cent of the original target for the deficit for the whole year of FFr 45bn, half of last year's FFr 93bn. As a result, officials have revised the Government's aim towards the less ambitious objective of clipping the deficit to FFr 45bn for the 12 months to next May.

Expressed in constant prices, Opec aid reached its peak in 1978, when the nominal figure was \$3.1bn, and has been falling since then in spite of the fall in the oil price in 1979/80.

EEC may extend steel quotas

BY PAUL CHEESBRIGHT IN BRUSSELS

EEC INDUSTRY Ministers today are expected to extend the production quota system for Community steel manufacturers to the end of 1985. The present system expires at the end of June. But Italy and the UK will probably use the Council of Ministers meeting in Luxembourg, to press for a greater share of the overall production.

Production cuts, set and administered by the European Commission under its powers from the European Coal and Steel Community treaty are regarded as essential while the restructuring of the steel industry takes place.

Industry Ministers have

already agreed that the EEC should phase out subsidies and cut some 35m tonnes of capacity by the end of 1985 to achieve both a rough balance of supply and demand and an industry working at 70 per cent of capacity.

Mr. Patrick Jenkin, UK Industry Secretary, goes into the meeting with the knowledge that the British Steel Corporation's retrenchment plan is further advanced than those of other EEC steel producers.

The claim that Britain's restructuring record is a good one carries with it the implication that other producers should do more. In recognition of the

severe cuts in BSC capacity and manpower, there is a British entitlement to a greater share of EEC production.

Italy has consistently argued that because its industry does not have the same restructuring problems as other European steel sectors, it too should have a higher quota.

These factors suggest that while there will be no problem at the Council on the principle of extending the quota system, there could be dispute about the terms.

The meeting will also

Oil prices force down Opec aid

BY DAVID MARSH IN PARIS

AID FLOWS from the Organisation of Petroleum Exporting Countries to the neediest developing nations have been declining in real terms since 1978, according to an authoritative report published in Paris today.

The report from the Organisation for Economic Co-operation and Development, says net aid flows from Opec in nominal terms fell in 1981, the latest year for which data is available, to \$7.7bn (£5bn) from \$8.1bn in 1980.

Expressed in constant prices, Opec aid reached its peak in 1978, when the nominal figure was \$3.1bn, and has been falling since then in spite of the fall in the oil price in 1979/80.

Apart from stagnating or declining oil revenues among Opec members over the past two years, the report cites as the prime reason for the decline in aid the revolution in Iran and the war between Iran and Iraq. These have led to the collapse of the Iranian aid programme and a sharp decline in Iraqi aid after 1980.

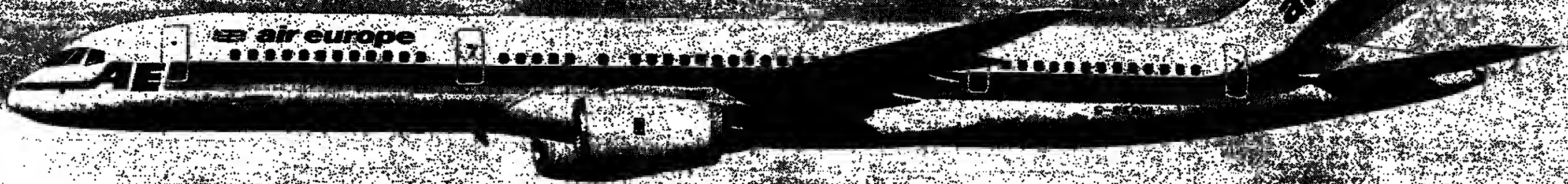
With many aid programmes curtailed, the four Arab Gulf states—Saudi Arabia, Kuwait, Qatar and the United Arab Emirates—have become increasingly dominant as Opec aid donors. In 1981, in spite of a decrease in their own aid disbursements, these four states supplied 95 per cent of

Opec aid, compared with their share of 80 per cent in the mid 1970s.

In spite of a fall in their aid to 1.40 per cent of gross national product in 1981 from 1.70 per cent in 1980, the Opec states remained well ahead of developed countries as aid donors. The industrialised West granted a collective 0.35 per cent of their GNP in aid in 1981 against 0.38 per cent in 1980, in cash terms, representing \$25.6bn against \$27.3bn in 1980.

Compared with the rest of the world, aid disbursed by Opec reached a peak as long ago as in 1975, when it totalled almost 3 per cent of the oil states GNP.

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STAYING AHEAD IN THE RACE TO TOMORROW

OVERSEAS NEWS

Turkey lifts political activity ban

By Maria Mendel in Istanbul
TURKEY'S MILITARY rulers yesterday lifted the ban on political activity and published a law which allows the formation of new political parties.

It now appears virtually certain that a general election will be held in the autumn this year, terminating military rule which started when Gen Kenan Evren and his colleagues seized power in September 1980.

Under the new law, political parties can start registering themselves with the Ministry of the Interior, starting from May 16.

But many restrictions remain. About 100 former political leaders, including two ex-prime ministers—Mr Süleyman Demirel and Mr Bulent Ecevit—will be barred from politics for a period of 10 years.

Gen Evren and his ruling National Security Council will have the authority to veto and veto the founders of new political parties. It will not be possible to form parties which will uphold Communism, Fascism or Islamic rule. Condemning the past deeds of the military administration and praising former civilian leaders will still be illegal.

The law states significantly that there will be no primary election to determine the candidates who will stand for parliament and no need to hold party congresses before the next general election.

Reagan plea on El Salvador aid

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE REAGAN Administration yesterday intensified its efforts to persuade a rebellious Congress to agree to its request for urgent military aid for the El Salvador Government. In advance of President Ronald Reagan's defence of his Central American policies before a joint session of both Houses on Wednesday night.

Mrs Jeane Kirkpatrick, the U.S. Ambassador to the United Nations, said the El Salvador Government was "doing a very good job under very difficult conditions" in fighting the Left-wing guerrillas. She claimed

that the Soviet Union had supplied the guerrillas with much better command, communications and control equipment, and often better weapons, than the U.S. had provided for the Government.

The Administration yesterday sent a group of Congressmen on a three-day visit to El Salvador and Honduras, to see for themselves before votes are finally taken on President Reagan's request for \$110m in urgent military aid for the Government. One such vote, covering \$80m of the aid, is set for Tuesday in a House appropriations

sub-committee.

In Nicaragua, Commander Daniel Ortega, the country's military leader, said that the Sandinista Government was still willing to sit down and talk to the U.S., adding that the conflict in the region could be resolved "politically or by warfare."

Mr Miguel d'Escoto, the Nicaraguan Foreign Minister, accused Honduras of complicity in Right-wing insurgency in Nicaragua and called for direct talks between the two countries "before it is too late."

In Washington Admiral Stan-

field Turner, director of the Central Intelligence Agency (CIA) from 1977 to 1981, accused the Reagan administration of making a "bad mistake" if covert American aid to the Nicaraguan guerrillas was as extensive as has been reported.

Hugh O'Shaughnessy, in San Salvador, writes: Mr Arturo Rivera y Damas, Archbishop of San Salvador, yesterday made a strong plea to the government forces and the guerrillas embroiled in the civil war in El Salvador to halt violence and seek peaceful solutions to the country's problems.

In Washington Admiral Stan-

Cairo and Moscow sign co-operation agreement

BY CHARLES RICHARDS IN CAIRO

EGYPT and the Soviet Union have signed an agreement in Cairo on cultural and scientific co-operation.

The provision of exchange visits is unlikely to have a great impact in itself. The agreement's significance is that it is part of a steady process of rapprochement between the two countries.

The Soviet Union had an unhappy time in its relations with Egypt under the late President Sadat. In 1972, he expelled 17,000 Soviet military advisers.

In 1977, he unilaterally cancelled Egypt's military debt. Finally in September 1981, a month before his death, he expelled the Soviet Ambassador.

Egyptian officials now say an exchange of ambassadors is only a matter of time.

The U.S. Administration understands Egypt's desire for a more independent foreign policy.

But Egypt is conscious that Congress, which controls aid allocations to Egypt running at over \$2bn (£1.3bn) a year for military and economic assistance, might be less understanding.

Costa Rica reschedules \$880m debt

SAN JOSE, Costa Rica—Costa Rica has signed a preliminary agreement with 170 private foreign banks to reschedule debts totalling some \$880m, the Central Bank said over the weekend.

The preliminary accord was signed on Friday by Sr Federico Vargas, Finance Minister, Sr Rodolfo Silva, Minister of State for Foreign Debt, and Mr Ulrich Merten, vice president of the Bank of America and representative of the creditor banks. A formal accord is due to be signed next month.

The banks will grant Costa Rica a four-year period of grace for capital payments of \$515m overdue or falling due this year, and for \$140m due next year.

Interest payments on the debt, estimated at some \$240m, are to be made by the end of the year.

The help with these payments, the banks will grant a new revolving credit of \$225m to finance imports. Interest on the new loan has been set at 1.75 per cent above the London inter-bank offered rate.

Reuter

Bolivia seeks aid

BY MARY HELEN SPOONER IN LA PAZ

BOLIVIAN authorities have called on the international community to create an emergency fund for medium and long-term investments in the country, while predicting that Bolivia's gross domestic product would likely contract further during 1983.

Sr Flacio Machicado, the Finance Minister, told a United Nations-sponsored conference on Bolivia's economic problems and possibilities for assistance, that GDP in 1982

shrank by 8.5 per cent, a further decline from the one per cent fall in 1981.

He said that only with strong external financing would Bolivia be able to restore its economy, though even with a measure of international aid, short-term prospects were not particularly favourable.

Bolivia hopes to obtain a medium-term \$400m credit from the International Monetary Fund

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By The Chase Manhattan Bank, N.A., London Agent Bank

Weariness marks poll in Portugal

By David White in Lisbon

CAMPAIGNING for Portugal's parliamentary election, which is expected today to return Sr Mario Soares, the Socialist leader, as Prime Minister after an absence of five years, ended at the weekend in a spirit of weariness and apprehension.

On a public holiday for the anniversary of the overthrow of the dictatorship in 1974, the country's 7m voters have to choose between a dozen parties and two coalitions to renew the 250-member single-chamber assembly, in theory for another four years.

The usual, noisy fairground atmosphere of the campaign has contrasted with the apparent lack of enthusiasm of the electorate, going through the motions of a ballot rather like a religious obligation.

Europe's poorest democracy is choosing its fifth parliament in nine years against a background of economic gloom and with slim prospect of finding a durable government under its semi-presidential system revived through a constitutional reform last year.

The Socialists, who have held the biggest share of the electorate of any single party, are expected to advance into the gap left by the break-up of the centre-right Democratic Alliance coalition, in power for the last 40 months.

Since local elections at the end of last year, Portugal has seen the resignation of Sr Francisco Pinto Balsemão, the Prime Minister, and changes of leadership both in his Social-Democratic PSD party, backbone of the governing coalition, and in its main partner, the Christian Democrat CDS.

The Socialists, backed by their ruling sister-party in Spain, have been predicted in opinion polls to gain between 34.5 per cent and 38 per cent of the vote. The higher figure would be a record in a parliamentary election but not enough for it to govern alone. Since Sr Soares has formally discarded a French-style alliance with the Communists, any coalition arrangement would presumably turn on the PSD—the Socialists and the Social Democrats being the only two other parties that between them are thought capable of securing an absolute majority.

China border clashes continue

China now claims to have killed a total of 37 Vietnamese troops since fighting broke out on the Sino-Vietnamese border a week ago, Mark Baker reports from Peking.

The latest Chinese reports say 17 Vietnamese were killed and another three wounded in fresh border clashes last Thursday and Friday. They suggest that the situation on the border is worsening progressively, but is still at the level of skirmishing and light artillery exchanges between the border units.

China has been increasing its threats and accusations against Vietnam.

Catalan nationalists on rampage

Extreme Catalan nationalists burnt down a Socialist propaganda stall in the main boulevard of Barcelona, Las Ramblas, on Saturday night at the end of a violent demonstration that underlined the growing radicalisation of the campaign for May 8 municipal election in Spain's second city. Tom Burns reports from Madrid.

Soviet-made arms bound for Nicaragua

Brig Delta Jardim de Matos, Brazil's Air Force Minister, has confirmed that most of the arms, ammunition and bombs unloaded from four Libyan aircraft held by the Brazilian authorities for the last 10 days are Soviet-made. John Arden reports from Rio de Janeiro. The aircraft were supposed to have been carrying medical supplies to Nicaragua, but Brazilian authorities decided to hold them until their cargo was checked. Government officials have confirmed that the planes and the cargo will be returned to Libya, but not necessarily together.

Solidarity man held

Police in Wrocław have arrested Mr Jozef Pinior, a member of the banned Solidarity trade union's underground wing, the official news agency Pao reported yesterday. Reuter reports from Warsaw.

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Highlights from the Accounts

	1982 £m	1981 £m
Group Profit	35.1	29.4
Shareholders' dividends	23.3	19.5
Staff profit sharing, net	1.1	-
Retained profits	10.7	9.9
Policyholders' bonuses	133.3	114.3
Group funds	7,317.6	5,827.1

Annual General Meeting 18 May 1983

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WORLD TRADE NEWS

CAIRO'S TROUBLED UNDERGROUND PROJECT

French ardour cools as tunnel delays mount

BY CHARLES RICHARDS IN CAIRO

UNDER THE HEADING "Cairo Governor Bans Digging Up Streets" an Egyptian newspaper cartoon depicts a surprised worker on the Cairo metro project being led away from his trench by police.

The cartoon succinctly illustrates a problem daily faced by the contractors. The Government commissioned the £250m project but wants none of the disruption to city life that its development brings. This explains why work on the capital's desperately needed rapid transit system has slowed virtually to a standstill.

The metro, first of its type in the Arab world, will give Egyptian contractors experience in building underground structures, such as car parks. But the benefit of this experience may be a long time coming because of Egyptian indecision and administrative shortcomings.

These are likely to make the French Government, which is providing FF1.1bn (£100m) in soft loans and Coface-backed export credits to cover two thirds of the underground construction costs, more wary of sponsoring other such projects in Egypt.

The project is the largest France has undertaken since the building of the Suez canal more than a century ago. Sixteen months after work started, in November 1981, the

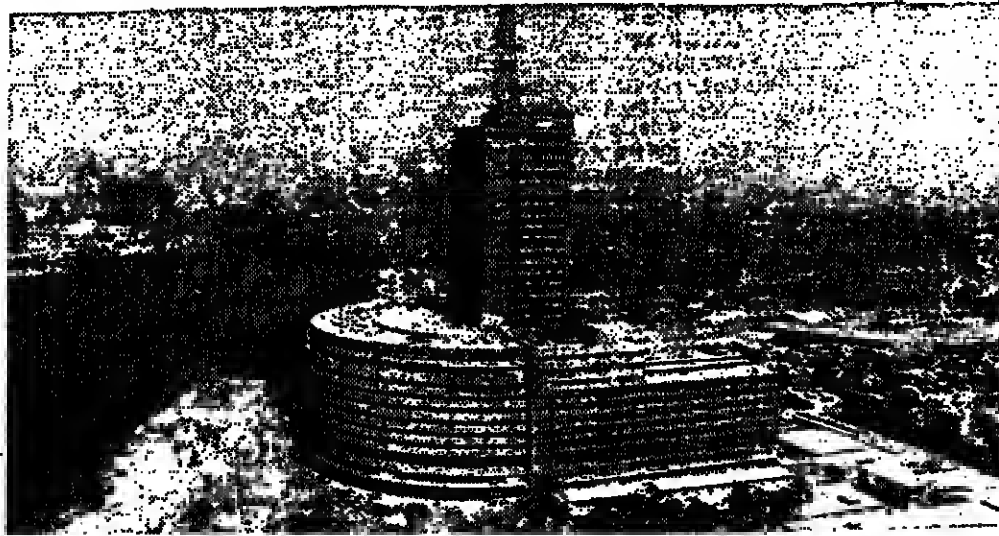
four-year project for the bustling city of 10m is 12 months behind schedule with little hope of catching up.

Phase one, by far the most important sector of the project, calls for a 4.5 km tunnel to be dug across central Cairo. The tunnel and underground would link with phase two, which calls for modernising of existing rail lines from the north and south but converging on the outskirts of the most congested quarter of Cairo. The link-up would give the city 42.5 kms of urban transportation track.

But so far, attainment of this objective seems a distant dream—so far less than 400 metres of panels for the tunnel have been erected, and these in areas where street traffic does not need to be disturbed. In effect, less than 10 per cent of phase one has been completed.

The technical problems of digging a tunnel by the "cut and cover" method across a densely populated city are formidable. Water is three metres below the surface. Maps and even the most rudimentary plans of water, gas, electricity, telephone and sewerage networks do not exist. Engineers have as little idea what they might discover under ground as Howard Carter before his excavations unearthed the treasures of Tutankhamun.

Inadequate plans are blamed by metro workers who hit a



Teeming Cairo's skyline: serious problems beneath the surface

water main in the central Tahrir square flooding the city centre for a number of hours.

But the hold-ups are administrative and organisational.

Contractors are unable to dig up roads because they often cannot get authorisation to divert traffic. Because of the nature of Egyptian decision-making, authorisation needs to be obtained separately from the Governorate of Cairo, the Cairo Transport Authority, and the traffic police, among others, for each diversion.

It can take weeks to obtain permission from just one of these authorities. In one case, it took two months to obtain permission to remove two palm trees.

A major problem is the lack of a single authority to deal with. The Egyptian National Railways (ENR) as client, set up the Metro Underground Organisation (MUO), but this does not have much political clout, cannot take decisions on traffic diversions, and does not own the land.

The appointment last month of a new governor of Cairo, and a new head of the MUO, a former army colleague of the Governor's who was formerly in charge of the Civil Engineering Corps, may inject some military decisiveness into the project.

Hopes that work might be set in motion were recently raised following the announcement that the prime minister had ordered work to start in Ramses square, by the main rail station.

Typically the contractors heard about this first from Press reports.

Consultants for the project are Societe Francaise d'Etudes et de Realisations de Transports Urbains (Sofretu), the engineering subsidiary of the Regi Autonome des Transports Parisiens (RATP) in a joint consultancy venture with Arab Consulting Engineers.

Contractors are a Franco-Egyptian joint venture, Inter-Infra-Arabe, combining 17 French companies and two Egyptian companies led by Arab Contractors of Osman Ahmed Osman who also builds most of Cairo's flyovers.

Tenders worth £13m for most of the second phase of the project had to be submitted by April 11. Tenders are for the new stations, and the electrification of the existing northern and southern lines.

The modernisation entails more than just upgrading the existing lines. The concept behind the rapid transport system is the frequency with which the trains operate. At present recurring power cuts pile up trains like an accordion so they come one after the other when power is restored.

The Egyptians have already undertaken modernising of the southern line from Bab el Louk in central Cairo to Helwan at a cost of £215m (£90m).

India accepts more Russian imports but imbalance remains

BY K. K. SHARMA IN NEW DELHI

TALKS BETWEEN Indian and Russian trade delegations last week failed to end a crisis in economic relations between the two countries even though India has agreed to import an additional 250,000 tonnes of crude from the Soviets this year.

The additional crude is worth just over \$60m whereas the heavy adverse trade deficit against Russia—the source of the crisis—was \$668m last year. If the bilateral trade plan involving a record turnover of \$3.6m in 1983 is to be carried through, Russia will have to accept the Indian offer of "technical credits" of over \$600m.

The Russian reluctance to do this is what has led to impasse in the so-called barter or rupee trade that has been carried on for the past two decades. Over this period, India has become steadily self-sufficient in capital goods and machinery that Russia used to supply or now prefers western sources instead. The decision to buy another 250,000 tonnes of crude—in addition to the 2.5m tonnes and 2.3m tonnes of refined products that India has already contracted for 1983—only highlights the nature of the critical imbalance in trade.

Crude and petroleum products, which became part of Indo-Soviet trade just five years ago, now constitutes more than 86 per cent of Russian exports to India. After four days of talks on identifying possible imports from Russia, India's largest single trading partner, it has been possible to arrive at the decision to increase pur-

chases of the same item. Over the years, the roles have been reversed—Russia is now a supplier mainly of raw materials and India is in a position to send back processed goods.

An Indian business team is to visit Russia soon and the Soviets are to arrange an exhibition of their machinery in one country. But it is apparent to both that this will have only a marginal impact on the problem—India just had not further need of Soviet manufactures in their present state of technology.

The turnover in 1982 is estimated at \$3.1bn and Russia had a deficit of \$68m.

The two countries, it was announced after the talks, agreed that their trade should increase in a "balanced manner" which means that India will have to import more. The problem lies in finding the goods for the purpose.

No further talks to solve the immediate problem are planned although it was announced that talks will be held as usual later in the year to draw up bilateral trade plans for 1984.

Exports, the Indian Light Engineering Company, and Grindlays Bank of UK have signed an agreement financing India's first floating drydock to be built by Ishikawajima-Harima Heavy Industries of Japan. The drydock will cost \$22m and Grindlays have agreed a loan of \$16m for it from the Eurocurrency market. Funds are also to be contributed by Punjab National Bank in London and Citibank in Singapore.

UK presses Romania on small debts

By David Suchan

THE UK GOVERNMENT is pressing Romania to pay its persistent trading debts to smaller British companies, while acknowledging that the Romanians have virtually cleared their arrears to larger UK companies with payments in goods and commodities.

This emerged in talks in London last week in the context of the Anglo-Romanian joint commission on trade and economic co-operation, led on the Romanian side by Mr Aurel Doma, the deputy foreign minister. Mr Doma also saw Mr Francis Pym, the Foreign Secretary, Mr Peter Rides, the Trade Minister, officials at the energy ministry and various UK company executives.

Romania's chronic arrears on trade payments over the past two years has been a source of friction with not only western companies and governments, but also the International Monetary Fund. In giving the go-ahead last month for Romania to start drawing on its 1983 standby credit tranche of \$400m, the IMF made it clear to Bucharest that it must further reduce trade debt arrears, if it wants to continue drawing on the standby credit uninterrupted.

Mr Doma told British ministers that, with a \$1.6bn hard-currency trade surplus in prospect, Romania's trade relations should improve this year. But Romania has a severe imbalance with Britain, with exports of only £315m last year compared to imports from the UK of £115.9m.

Guinness Peat Aviation in \$60m U.S. deal

By Michael Doms

GUINNESS Peat Aviation, the Shannon-based aircraft leasing and trading group, has arranged a \$60m (\$40m) deal to supply America West Airlines of Phoenix, Arizona, with seven Boeing 737-200 jets.

The deal, arranged through Guinness Peat's U.S. subsidiary, GPA Inc., covers aircraft supply, maintenance, technical and training support for America West.

This is a new U.S. airline which is due to start operations in August, with routes based on Phoenix and serving the South-West U.S. and California.

GPA will provide two of the aircraft from its own current fleet, the other five coming from Pacific Western Airlines of Calgary, Alberta.

Mr T. A. Ryan, deputy chairman and chief executive of Guinness Peat Aviation, commented: "GPA continues to grow in accordance with plan."

"Profit for fiscal 1983, which ended March 31, is more than 30 per cent up on the £5.1m we earned in the previous year and we expect a similar increase this year."

"In order to finance the even more rapid growth we believe possible, we are considering various options with our investment banking advisers. Logically, these include the possibility of a major private placement and/or a public flotation."

SHIPPING REPORT

Confidence continues

BY OUR INDUSTRIAL STAFF

THE MOOD of slightly greater confidence which has recently been evident in the shipping market continued last week.

Shipbrokers E. A. Gibson in its tanker market report, said this week had seen more confidence and an increase in demand covering all the main trading areas now that the oil price structure seemed to have become relatively stable.

Most of the benefit of an increase in the number of cargoes placed on the market went to smaller vessels, with larger ships continuing to find the going more difficult.

The main trading area to star was West Africa, where there was almost a rush for early tonnage, said Gibson. Owners were able to obtain premium rates, with cargoes pay-

ing worldwide 60 for 70,000 tons to the Continent or European Mediterranean and worldwide 90 for 65,000 tons to Spain.

Galbraith Wrightson supports the evidence of greater activity in West Africa, but points out that the cargoes quoted have been rather small. "Part cargoes continue to be almost the only method of chartering these days and even 120,000 tonnes are accepting just about 50 per cent of their total intake."

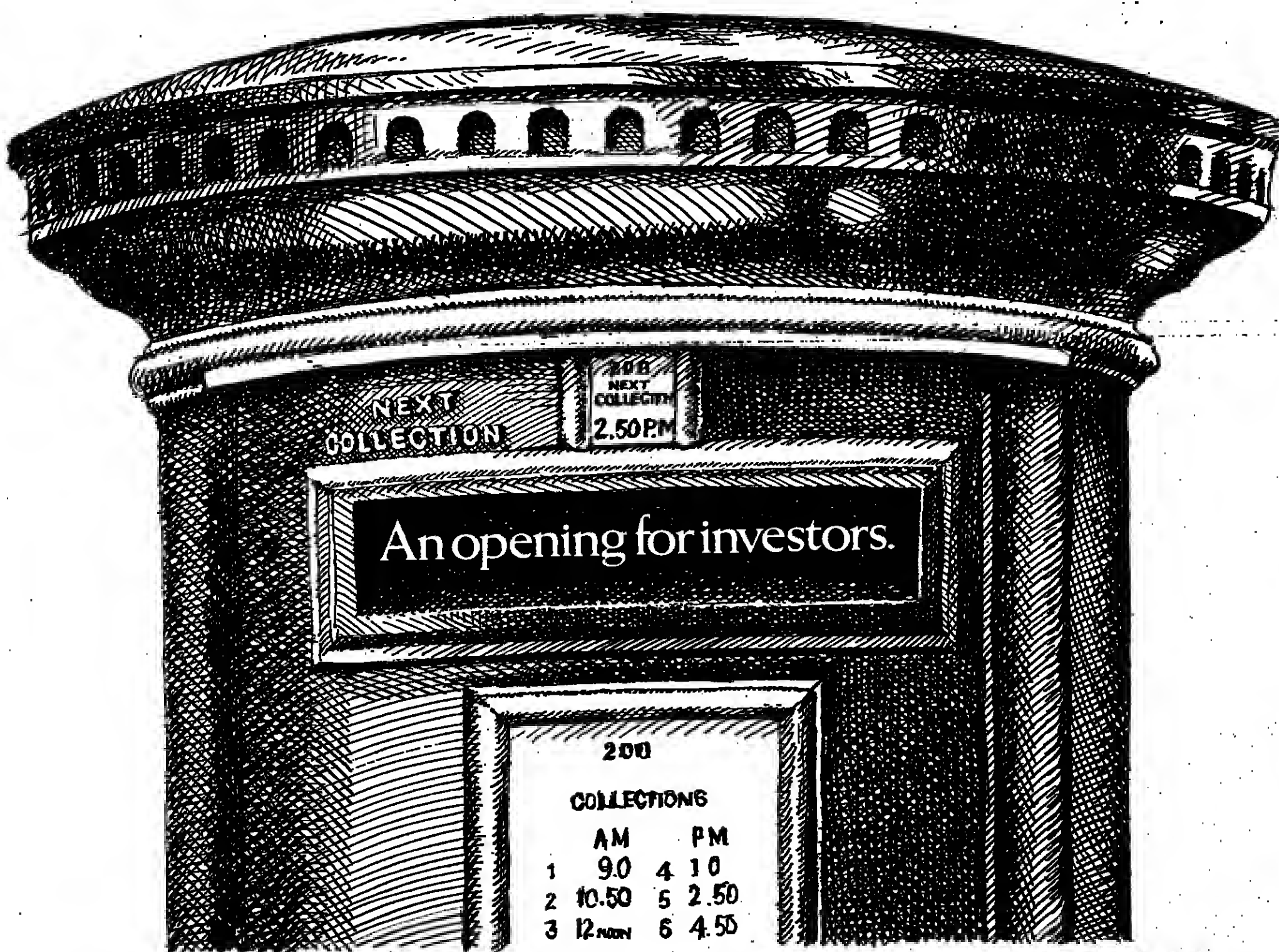
More inquiries are reported from the Arabian Gulf, but these again tend to be restricted to smaller tankers. Galbraith says that last week was relatively quiet on the ship sales market—at least so far as definite sales were concerned—"but the underlying tendency still remains firm."

World Economic Indicators

FOREIGN EXCHANGE RESERVES INDICES

	Feb. '83	(U.S.\$m)	Jan. '83	Dec. '82	Feb. '82
U.S.	9,220	9,490	10,210	9,276	
UK	9,108	8,157	8,673	12,291	
W. Germany	42,486	40,646	39,620	34,936	
Japan	19,546	19,497	19,172	24,480	
Italy	13,432	13,900	12,629	16,509	
Netherlands	9,545	9,430	8,462	7,448	
Belgium	5,173	5,219	5,234	2,947	
France	17,549	14,594	11,464	18,295	

Source: IMF



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STATISTICAL TRENDS: WORLD TRADE

Lack of demand hits developing countries

CHANGES in world trade levels are related to world demand and output, and the recent decreases in overall volume of trade are expected to be reversed only as recessionary effects abate and demand picks up.

The UK National Institute of Economic and Social Research believes the volume of world trade will rise this year by 1 per cent and by 3 per cent in 1984. The latest Phillips and Drew World Investment Review suggests trade in 1983 will be virtually static with a pick-up in 1984 of 2 per cent. It expects the largest decreases to be by the Organisation of Petroleum Exporting Countries (Opec) and the largest increases to come from the countries in the Organisation for Economic Co-operation and Development (OECD).

While 56 per cent of world exports are manufactured products, and half of those are engineering products, they comprise about three-quarters of industrial countries' exports. Exports of manufactures by non-OECD countries (NODCs) amount to some 40 per cent of their total exports.

Of the seven major exporters of manufactured goods, Japan showed the largest increase in the volume of exports to the six years from 1975, followed by Italy and Canada. In terms of relative competitiveness of the seven countries, the UK has been the least so, particularly in terms of relative unit labour costs. The developing countries are especially dependent on them and they

contribute 60 per cent to NODCs' exports. The volume of the exports has been severely affected by the continuing low level of industrial countries' demand.

Falling commodity product prices, and therefore incomes and balance of payments difficulties, have forced a reduction in the NODCs' import volume by an estimated 5 per cent in 1982, according to Capel-Cure Myers' recent Outlook for Commodity Prices.

Phillips and Drew is slightly more optimistic than the OECD for the trade and services balances of the NODCs. Its review expects a significant improvement in the trade deficit to -\$25bn in 1984, and in the services deficit to -\$22bn, brought about by a reduction in interest rates and therefore costs on debts outstanding.

Overall, the fall in commodity prices continued last year. Contributing factors, other than low levels of economic activity, were good harvests and high interest rates, the effect of which was a reduction in consumers' stocks and an increase in producers' already fairly high stocks.

Although the OECD countries have gained the most from the fall in commodity prices, two-thirds of those countries' commodity imports come from within the OECD. For net commodity exporters, such as Australia and Canada, the falling commodity prices have had a major adverse effect on their balance of payments.

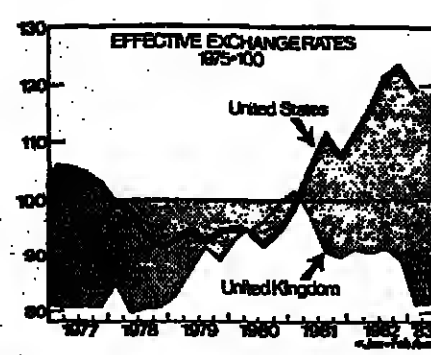
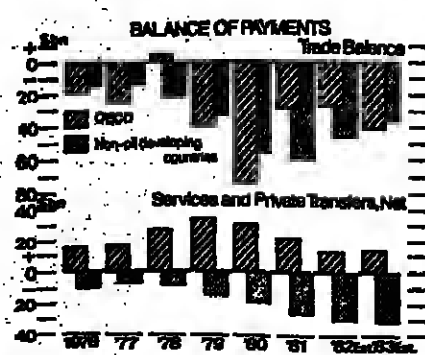
However, the impact has been considerably greater for the lower income NODCs, particularly those which rely on most of their foreign exchange earnings from a single commodity. For example, copper accounts for 94 per cent of Zambia's exports, and aluminium/bauxite accounts for 78 per cent of Jamaica's exports.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department.

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General

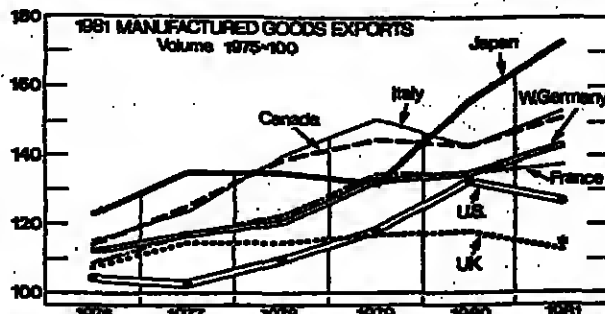
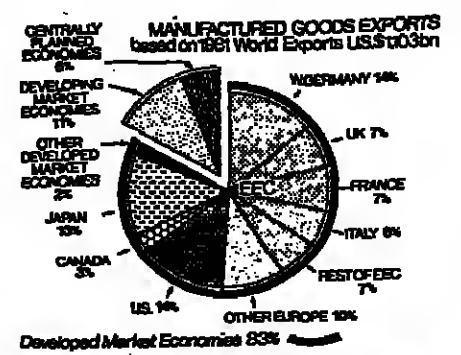


Manufactures

WORLD EXPORTS OF MANUFACTURED PRODUCTS (\$bn)

	1973	1980	1981
Iron and steel	28.5	74.2	74.0
Chemicals	41.9	153.0	148.5
Other semi-manufactures	29.0	92.7	88.5
Engineering products	188.0	592.0	615.0
Specialised industry mach'y.	52.5	159.0	160.5
Office & telecom. equip.	17.2	59.6	62.0
Road motor vehicles	41.0	127.4	129.5
Other mach'y. & trans. equip.	62.0	198.7	211.0
Household appliances	15.3	48.3	52.0
Textiles	23.4	55.4	53.5
Clothing	12.6	40.2	41.0
Other consumer goods	24.3	83.7	82.5
Total manufactures	347.5	1,094.1	1,103.0
% of world exports	60%	55%	54%

Source: GATT International Trade 81/82



COMPETITIVE POSITIONS IN MANUFACTURING

	Relative unit labour costs 1970=100					Relative export prices 1970=100				
	1979	1980	1981	1982*	1983*	1979	1980	1981	1982*	1983*
U.S.	64	65	74	82	86	86	85	99	109	114
Canada	83	85	89	97	101	78	81	81	79	79
Japan	136	116	126	111	101	107	101	107	99	93
France	99	104	105	103	102	99	100	95	95	95
Germany	120	118	110	109	107	113	107	99	100	99
Italy	93	92	90	91	100	96	102	100	100	102
UK	114	142	143	134	134	113	125	120	113	112

* Estimates.

Source: OECD Economic Outlook, December 1982

1981 EXPORTS OF FINISHED MOTOR VEHICLES AND PARTS (\$bn)

Origin	U.S.	Japan	EEC (9)	Other W. Europe
Destination	9.9	13.7	5.5	0.8
North America	0.3	—	0.3	—
Japan	1.4	3.1	29.2	3.3
EEC (9)	0.3	1.4	8.4	1.3
Other W. Europe	6.3	10.1	14.7	1.9
Develop'g countries	2.4	4.9	5.0	0.6
Opec	3.9	5.3	6.1	0.7
Other	19.1	31.1	59.9	7.4
World (in 1979)	(18.3)	(20.1)	(62.1)	(6.4)

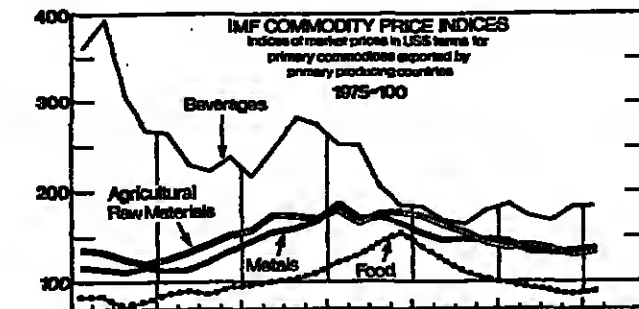
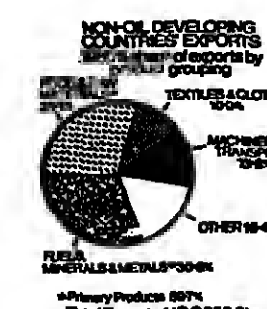
Source: GATT International Trade 81/82

Primary products

WORLD EXPORTS OF PRIMARY PRODUCTS (\$bn)

	1973	1980	1981
Food	86.4	222.0	223.0
Raw materials	34.6	75.3	68.0
Ores and minerals	14.9	41.8	37.0
Fuels	63.5	449.8	463.0
Non-ferrous metals	17.3	53.2	41.0
Total primary products	216.7	842.1	832.0
% of world exports	38%	43%	42%

Source: GATT International Trade 81/82



Metals

WORLD METAL EXPORTS 1,000 tonnes

	Aluminium unwrought	Copper refined	Lead refined	Zinc slab
1977	3,165.0	2,708.3	827.9	1,404.4
1978	3,563.9	2,714.1	977.6	1,716.3
1979	3,436.7	2,872.7	969.4	1,598.9
1980	4,126.8	3,000.6	1,091.6	1,693.1
1981	4,876.4	2,461.7	927.1	1,699.5

Source: World Bureau of Metal Statistics

MAIN METAL TRADERS 1,000 tonnes

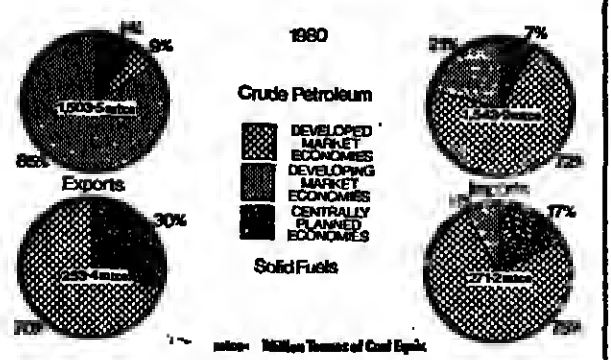
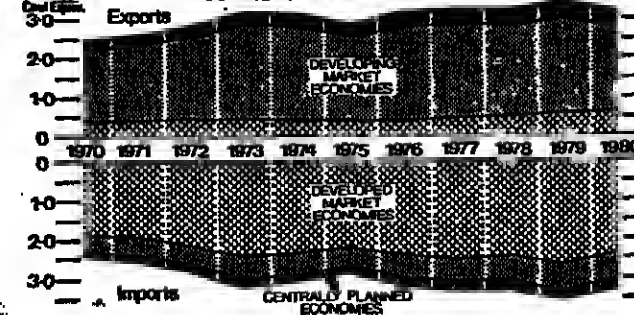
1981	Exports	Imports	1981	Exports	Imports
Aluminium, unwrought			Lead, refined		
Canada	725.5	14.3	Australia	170.5	9.2*
Norway	524.0	14.8	Canada	119.8*	51.5
Netherlands	352.1	161.3	UK	98.0	—
U.S.	1,729.3	—	Italy	178.9	—
W. Germany	643.9	—	U.S.	103.7	—
Copper, refined			W. Germany	67.5	—
Chile	752.1	—	Zinc, slab		
Zambia	535.8	—	Canada	453.5	—
Belgium	282.5	278.3	Australia	176.1	—
France	380.5	—	Netherlands	140.4	—
W. Germany	381.7	—	U.S.	402.4	—
U.S.	354.9	—	W. Germany	119.3	—
			UK	112.7	—

* Includes sheet.

Source: World Bureau of Metal Statistics

Energy

COMMERCIAL ENERGY TRADE



Source: World Bureau of Metal Statistics

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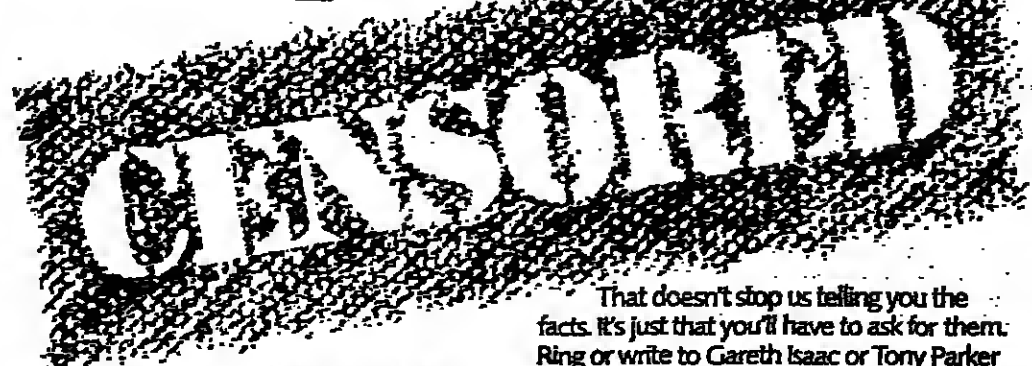
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ENERGY REVIEW

Aker charts a new course in deeper waters

BY RAY DAFTER

NO-ONE can be more relieved away in a mountain hideaway to see the stabilisation of international oil prices than Karl Glad, president of the Norwegian Aker group.

During the past eight months he, more than anyone, has been responsible for transforming the shipbuilding and industrial group under a drastic corporate survival plan.

Businesses have been sold off right, left and centre reducing turnover from between Nkr 3bn and Nkr 4bn in recent years to nearer Nkr 1.5bn to 2bn (\$210m to \$280m). Staff which numbered 12,000 in 1979 and 10,000 last year are now down to 5,000 and could soon be no more than 4,000.

As a result of all this Aker has become a smaller company with a single, fixed idea: to concentrate its engineering, fabrication, contracting and technical services on one market—the offshore oil and gas sector.

Which is why Mr Glad has been anxiously tracking the downward movement in oil prices. The slide seems to have been arrested, at least temporarily. But it could easily have developed into a pricing collapse which would have rendered uneconomic most of the necessarily expensive offshore oil and gas projects. A sharp drop in prices can still not be ruled out.

Mr Glad personifies the image that the new-look Aker is trying to project. Aged 45 he is slim and clearly fit. A long-distance skier and runner he finished the recent London Marathon in a time of 3 hours 20 minutes and then complained he had not been faster.

The fact that Mr Glad likes quick results is shown by the speed with which the Aker board has tackled its deep-seated business problems. In recent years Aker, 75 per cent owned by the Fred Olsen Group, has been consistently making hefty deficits. Operating losses before extraordinary items were Nkr 67.6m in 1979, Nkr 117.5m in 1980 and Nkr 60m in 1981.

Last summer, armed with a McKinsey management report you are making it," said Mr Glad.

He took the view that Aker could no longer afford to stay in the depressed shipbuilding for some 140 years. Between 1978 and 1981 Aker's shipyard losses totalled Nkr 400m. He also concluded that the group had no future in the general industrial sector.

Instead, it was decided. Aker would concentrate on its profitable offshore businesses—preparing studies of oil field development projects, fabricating production equipment including platforms, installing electrical and mechanical contracting work, and providing offshore services for operators of oil and gas fields.

The strategy was adopted at a lengthy board meeting on August 24 last year. It was said Mr Glad, that the board took the decision to try and sell the unwanted businesses as going concerns rather than to shut them down and strip out the assets. Since then the group has been involved in one of the biggest upheavals experienced in Norwegian industry. So far no less than nine businesses have been sold.

Aker reckons this is a result of selling these businesses and untangling their associated debt problems it will end up with a cash deficit of Nkr 50m. On the other hand it expects to gain some Nkr 250m from the separate sale of properties.

But most important, according to Mr Glad, is the fact that as a result of its reorganisation Aker should break even this year and make a "nice profit" in 1984. If the group had maintained its shipbuilding base the results could have been disastrous, he went on.

The switch in direction from shipbuilding to offshore supplies and servicing has forced a change in corporate psychology. "When you sell ships you are selling a product to a buyer who is happy to specify a design and performance and leave you to get on with the job. He will not interfere as you are making it," said Mr Glad.

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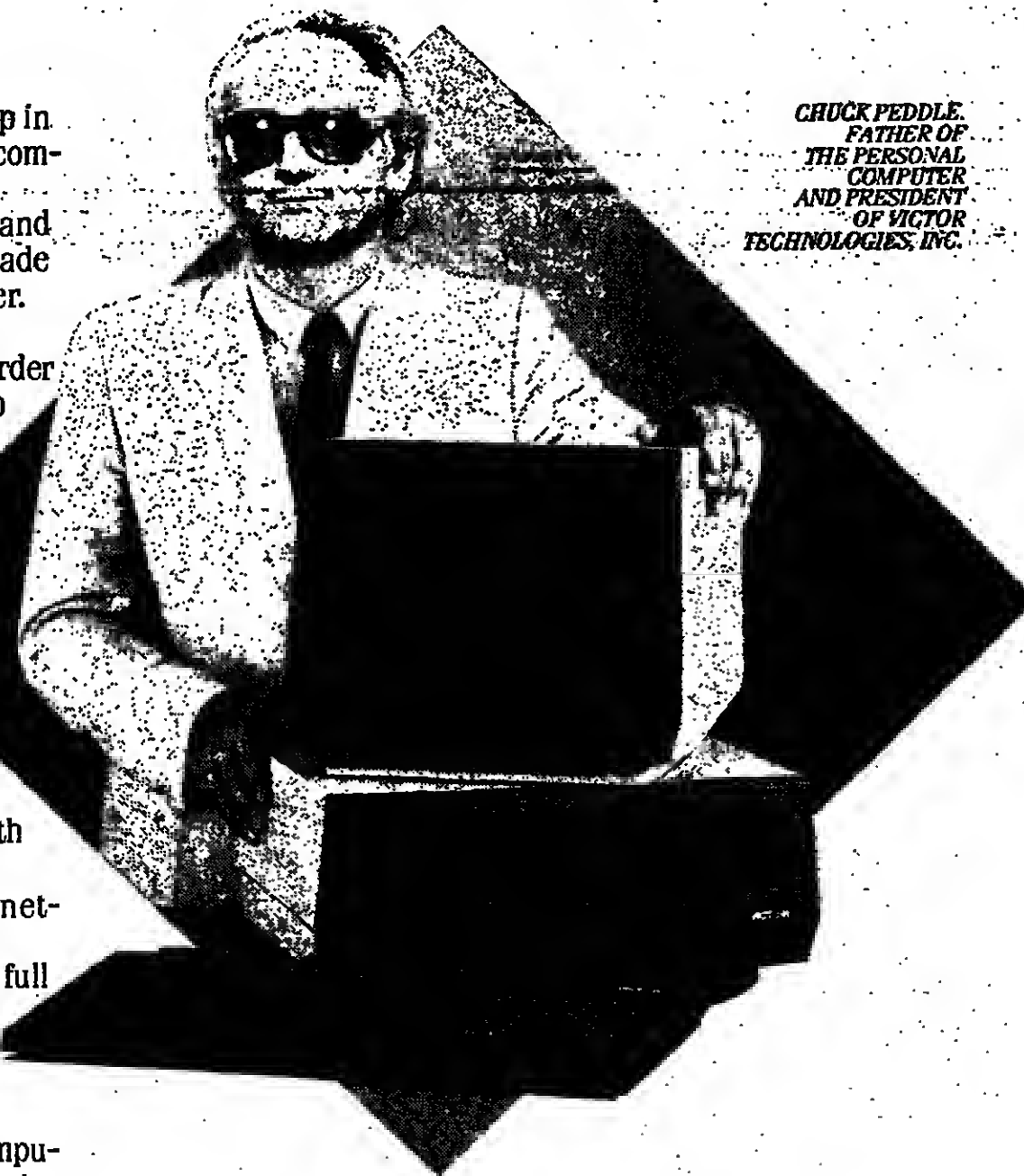
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UK NEWS

More trouble feared as BL prepares for return

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

TRUBLE could flare again at BL's Cowley factory, regardless of the expected vote tomorrow by 5,000 workers in the assembly plant to end their four-week strike.

Even if workers accept the company's peace formula, the row over management plans to abolish "cleaning-up time" is by no means resolved, Mr David Buckle, Oxford district secretary of the Transport and General Workers' Union (TGWU), warned last night.

He maintained that the 17 hours of weekend talks between top executives and national union leaders had "ended the days of BL imposing their decisions." He said the management would now have to consult the workforce and rethink its entire industrial relations strategy.

Austin Rover has offered a four-week "cooling-off" period so that management and unions within the assembly plant can discuss the productivity measures - including the abolition of cleaning-up time - before the vote on May 27.

Failure to reach agreement by May 27 would lead to another national level meeting, after which the company will be free to impose the changes unilaterally and the unions could take renewed industrial ac-



Mr Terry Duffy

tion. Local union leaders favour "a campaign of passive resistance" rather than another walkout.

However, the grievances of the 5,000 workers in the assembly factory are resolved, a similar dispute is brewing in the neighbouring Cowley body plant. There, management is demanding an even bigger cut in cleaning-up time - 10 minutes a day rather than six.

Before the assembly workers walked out body plant shop stewards were urging members to ignore the management instruction and continue to wash as normal.

The Austin Rover management attitude, once production resumes as expected later this week, will be crucial to maintaining the peace at Cowley. However, the company made clear last night that there was no question of restoring the former power of shop stewards. There would be "nothing special" about the normal process of consulting workers about productivity changes.

An important element of the management peace formula is the proposed setting up of a four-man forum to investigate allegations about the "dictatorial attitude of management members. Two senior management men and two full-time union officials will be named shortly and will report to top management and national union leaders.

The peace formula thrashed out by Mr Harold Musgrove, Austin Rover's chairman, Mr Moss Evans, the TGWU general secretary, and Mr Terry Duffy, president of the Amalgamated Union of Engineering Workers, falls short of the aspirations of both sides, but it clearly formed the best compromise to open the way for an early return to work.

The unions will make no recommendation to the mass meeting but acceptance seems likely.

Upswing in UK business activity

By Jeremy Stone

MORE GROUND for optimism over Britain's emergence from the recession was provided by the Government's latest set of cyclical indicators, pointing to a sustained upswing in business activity.

At the same time, estimated consumer spending for the first quarter of 1983 confirmed that consumption was still running at the high level of the pre-Christmas period, roughly 3 per cent higher than in the first quarter of 1982.

The longer leading indicator, which is intended to pick up increases in activity about a year in advance, rose in March for the 13th successive month. The lagging indicator, which aims to discern improvements roughly 18 months after they have occurred, is also now showing an increase after some months of little change.

The main influences on the longer leading indicator recently have been the rise in share prices and reports of business optimism (which only reflect beliefs about the upward trend in output).

Renold to declare further redundancies

BY NICK GARNETT, NORTHERN CORRESPONDENT

RENOLD, the power transmission company which has already cut its workforce from 12,000 to around 7,000 in the past two years, is about to announce a major restructuring programme involving significant capacity cuts and further redundancies.

The company, which has suffered severely as a result of falling industrial demand, has been under increasing pressure from its bankers to cut losses and put itself on a firmer footing. Consultants have been spending time at some of its sites examining restructuring alternatives.

Although the company has not indicated as yet the scope of the cuts or where they will fall, some union officials believe the company's operations in Bradford, Yorkshire, might suffer most.

The restructuring may involve work transfer to improve the viability of some of Renold's sites.

The company, which has its traditional strength in chain manufacturing, made a pre-tax loss of £1.7m on total sales of £139.5m in the year to June 1982.

Much of its labour is employed in the power transmission division. This has sites in Manchester, Cardiff, Burton-on-Trent and the Croft gearworks at Bradford. The Holroyd gearworks at Rochdale is also part of that division and could be the recipient of a work transfer.

Renold has been introducing new products, including a new range of hydraulic motors and motor controllers, and won the order for the chain drives on the BL Maestro engine.

Midlands cargo deal

FINANCIAL TIMES REPORTER

THE EAST Midlands Airport at Castle Donington, near Nottingham, has beaten off competition to land a multi-million-pound deal which could make it the largest provincial cargo airport in the UK.

A major Hong Kong-based air cargo group has decided to set up the headquarters of a major Euro-

pean network at Castle Donington. The decision could mean the building of a new runway to allow direct cargo flights from North America to the East Midlands.

The Hong Kong company operating the service is DHL, who employ 10,000 people worldwide and deliver 15m consignments annually.

Textile spending surpasses other consumer sectors

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

SPENDING on clothes and household textiles such as sheets, pillowcases and towels rose at a faster rate last year than other consumer spending, according to the latest figures from the Department of Trade.

This rise was not reflected in an increase in output, though, which indicates that manufacturers were still running down their stocks to meet rising demand.

Recently, some leading figures in the industry have been expressing optimistic noises about the state of trade. Mr Donald Hanson, chief executive of Hinesworth Morris, one of the largest woollen concerns in the world, has suggested that a "turning point" had been reached for wool.

Mr Alan Clough, president of the Confederation of British Wool Textiles, has seen a "slight turn" in the wool trade.

The stronger feeling in the British clothing retail sector has also been seen abroad. Reports from Italy suggest that sales in January were the highest for several months, with high-value top coats selling particularly well.

Elsewhere in Europe, Belgium has seen stronger demand, especially for woollen clothes and the carpet industry in Switzerland also appears to be reasonably strong.

The best performance last year was in France, where a 4 per cent rise in sales of textiles and clothing was recorded, although most of the rise came in the first half of the year.

Inflation caused cutbacks after July and the squeeze on consumers' incomes applied by the French Government led to January sales promotions being brought forward into December.

Engineers may act over shipyard job cutbacks

BY DAVID GOODHART

A WARNING of industrial action in British shipbuilders to resist the latest round of redundancies has come from the national conference of the Amalgamated Union of Engineering Workers (AUEW).

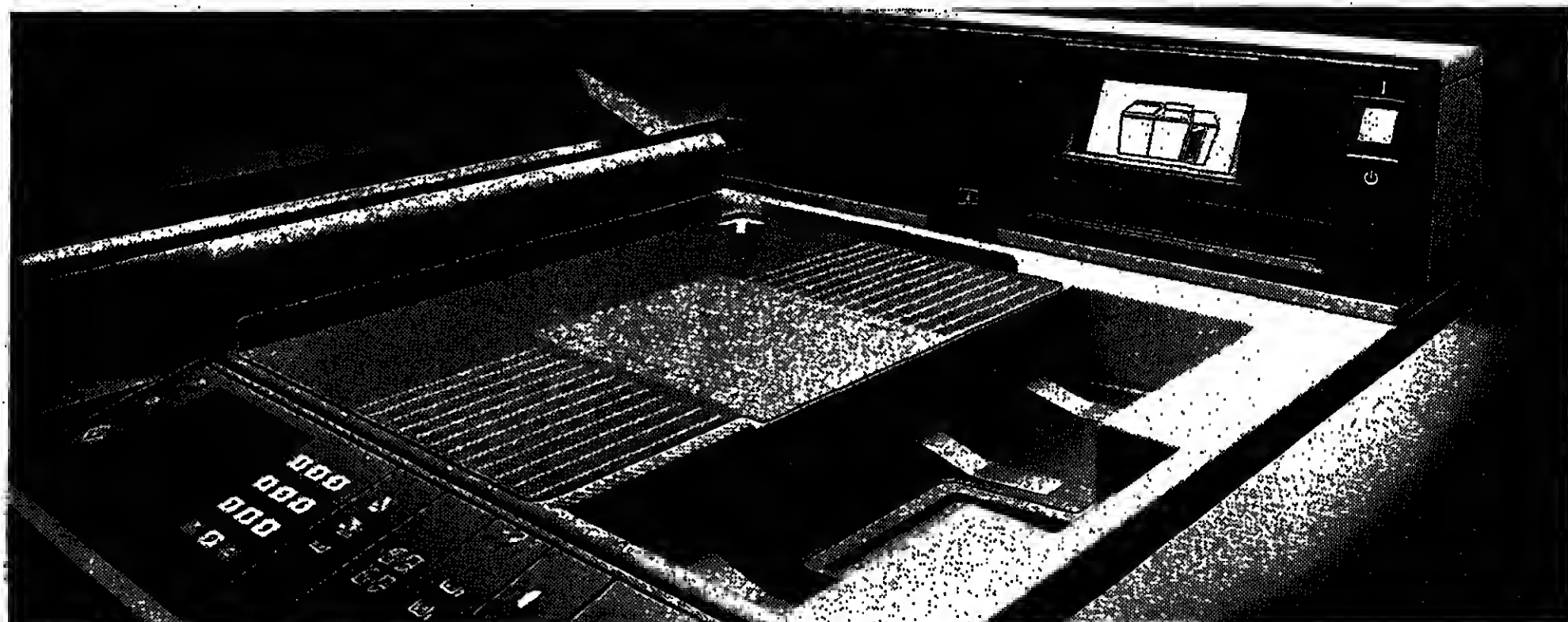
Mr George Arnold, AUEW executive member, said that BS appears to have cut the number of redundancies required by the end of this year from the 8,000 figure mooted last month to 7,000. But, he added: "We have reached a critical position and I think there will now be a confrontation."

More than 2,000 voluntary redundancies were agreed in March and Mr Arnold said there would be few voluntary candidates for redundancy left. The union's Shipbuilding Negotiating Committee has a firm policy of resistance to compulsory redundancy, which will be reiterated at a delegate conference on May 3.

The conference may also call for industrial action. Mr David Cooper, an AUEW delegate from the Govan yard on the Clyde, said: "We are quite prepared to carry out a policy of occupation if we get support from other yards." Support from the more successful military yards such as Yarrow is, however, doubtful.

The unions are also resisting a proposed wage freeze from BS. Mr Arnold was highly critical of Mr Robert Atkinson, BS chairman, for not revealing to the unions details of an emergency plan for the shipyards that he has submitted to the Government. It is believed to include a pledge of a pay freeze and further redundancies in return for emergency financial backing.

A motion calling for a ballot vote of the AUEW membership in BS on the principle of introducing ballot votes before any agreements are concluded with BS, was narrowly defeated.



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UK NEWS

EEC farm budget will go bust, MPs told

By Kevin Brown, Parliamentary Correspondent

THE EEC agriculture budget will go bust by more than £1bn if the European Commission's farm price proposals are accepted, Mr Norman Buchan, the Shadow Agriculture Minister, claimed in the House of Commons.

Agriculture Minister Mr Peter Walker said the proposals put to farm ministers in Luxembourg on Wednesday would mean average UK increases in farm product prices of 3.8 per cent. That would add 0.1 per cent to the retail price index.

Mr Walker confirmed that Britain has a veto over changes in the settlement because the Commission's proposals can be amended by a unanimous vote of the Council of Ministers.

The decision was delayed because of West German unease at a parallel green currency realignment, which would reduce German price increases to an average one per cent, he said.

It was clear, however, that the ten farm ministers would accept the Commission's proposals at their next meeting on Wednesday.

Mr Buchan said the Commission's increase of 6 per cent in the agricultural budget would not be enough to pay for the price rises.

"The budget is going to go bust," he claimed. The deficit would be between £1bn and £2bn, which would have to be paid for either by an increase in the 1 per cent VAT limit on Community financing, or by an increase in import levies. Either would hit the taxpayer and consumer.

He accused the Government of trying to avoid the possibility of a June election because of the effect tax increases would have on its popularity.

Mr Walker told him: "The total food price increase from these proposals over a year are almost equal to the total food price increases per week during the last Labour Government."

Mr Walker also announced the Commission's intention to make 2m to 3m tonnes of cereal stocks available from stores to EEC pig farmers.

FULL INVESTIGATION INTO GUARANTEE SCHEME PLANNED

Lloyd's mounts warranty probe

By John Moore, City Correspondent

LLOYD'S of London, the insurance market, is mounting "a full and formal investigation" into a controversial warranty scheme offered by underwriters to manufacturers and retailers or purchasers of electrical goods.

The investigation will be of "a rigorous and comprehensive character" Lloyd's said after preliminary investigations suggested that there is a case for more formal inquiries.

Manufacturers and retailers have often extended the normal manufacturer's guarantee of one year to four years having obtained the appropriate insurance cover.

Multi-Guarantee, a company based in Maidstone, Kent, specialised in the marketing and management of what is described as "the extended warranty scheme." It directed its insurance business through Campbell Roberts, not a Lloyd's broker, who in turn passed it through Robert Morris Bray, a Lloyd's broker which transmitted the premiums on the business to Lloyd's underwriters.

Lloyd's underwriters found that the scheme was operating in a way

which had not been envisaged. Documents sent back to underwriters had been changed and the policy had been altered.

Lloyd's internal inquiry is to be headed by Mr R. Whewell of Peat Marwick, Mitchell and Co., the accountants.

Officers of two associations of members of Lloyd's have agreed that they should merge their two groups to form a combined entity of more than 1,000 members.

The two associations have operated in fundamentally different ways.

The Association of External Members of Lloyd's, regarded by the Lloyd's community as the more militant of the two, insisted that only those that pledged their capital to allow the Lloyd's market to function but who did not work at Lloyd's could belong to their association. Those that worked at Lloyd's professionally could not become members.

A rival association - the Association of Members of Lloyd's - permitted all members of the market to join the association.

Mr Mortimer, speaking at the annual conference of the Union of Shop, Distributive and Allied Workers, said Labour would have about £2.5m to fight the election compared with estimates of between £1.1m and £2.8m for the Conservatives.

Mr Mortimer said it was an indication of the Conservatives' fear of Labour that they now intended to restrict its finances even further by legislating on trade union political contributions. He added, however, that Labour would not fight an abusive campaign.

Tory funding angers Labour

By David Goodhart

THE Conservative Party will have five times as much money as the Labour Party to fight the next election, said Mr Jim Mortimer, Labour's general secretary, yesterday.

Mr Mortimer, speaking at the annual conference of the Union of Shop, Distributive and Allied Workers, said Labour would have about £2.5m to fight the election compared with estimates of between £1.1m and £2.8m for the Conservatives.

Mr Mortimer said it was an indication of the Conservatives' fear of Labour that they now intended to restrict its finances even further by legislating on trade union political contributions. He added, however, that Labour would not fight an abusive campaign.

Finance subsidiary loss hits profits at Co-operative Bank

By Alan Friedman, Banking Correspondent

THE CO-OPERATIVE Bank, a pioneer in the personal banking market, had one of its worst years in 1982.

Group operating profit tumbled by nearly 80 per cent to £1.69m and had debt provisions were more than doubled in 1982 to just below £2m.

The poor 1982 performance of Co-operative Bank resulted partly from a £2.5m loss recorded by the bank's finance house subsidiary, First Co-operative Finance. This followed a £1.7m loss at the finance house in 1981.

Mr Peter Paxton, chairman of Co-op Bank, termed the finance house results "an unexpectedly severe loss" and said it was a reflection of "the depth of the current economic and business depression."

Mr Paxton said the finance house losses stemmed partly from loans to buyers of motor cars and that these had also figured prominently in the group's bad debt provisions. He said the group had changed the management of the finance house and was confident "the thing is coming round."

The Co-op Bank is also being hit by costs associated with its transition away from the Barclaycard processing service to its own in-house credit card processing system. Because the contract with Barclays Bank cannot be terminated until next year, Co-op expects to pay about £900,000 to Barclayscard this year.

Total bank assets rose from £337m to £377m and retained earnings stood at £2m, following a £317,000 tax credit.

North Sea oil groups agree drilling pact

By Richard Johns

OCCIDENTAL Petroleum and Thomson North Sea have reached agreement with Texaco whereby they could earn a half share in the licence for Block 15/23A on the UK continental shelf through drilling three delineation wells.

Completion of these wells, under the "farm-in" arrangement, is expected to give Occidental an equity share of 38.75 per cent and Thomson 11.25 per cent in the promising "Galaxy" prospect.

Five wells have been drilled there so far, three of which were discovered

giving test flow rates ranging from 1,000 to 4,000 barrels a day.

The delineation drilling programme will be carried out using a rig or rigs presently under contract to Texaco. The work is to start in the next few weeks.

For Occidental and Thomson the prospect is particularly attractive because it is near their Piper field which is connected to the Flotta terminal in the Orkneys and is producing at a rate of 200,000 barrels a day. Their partners in that operation are Allied Chemical and Getty.

Toyota puts up prices

By John Griffiths, Motoring Correspondent

TOYOTA (GB) is the latest manufacturer to raise its UK car prices. They are to go up by between 3 and 5 per cent from May 1.

The 3 per cent increase applies to the Celica coupe range and the recently launched Tercel range of cars. All others, including light commercial vehicles, will go up by 5 per cent with the exception of the new Hi-Ace van, Land Cruiser and Camry range, whose recent launch prices are unchanged.

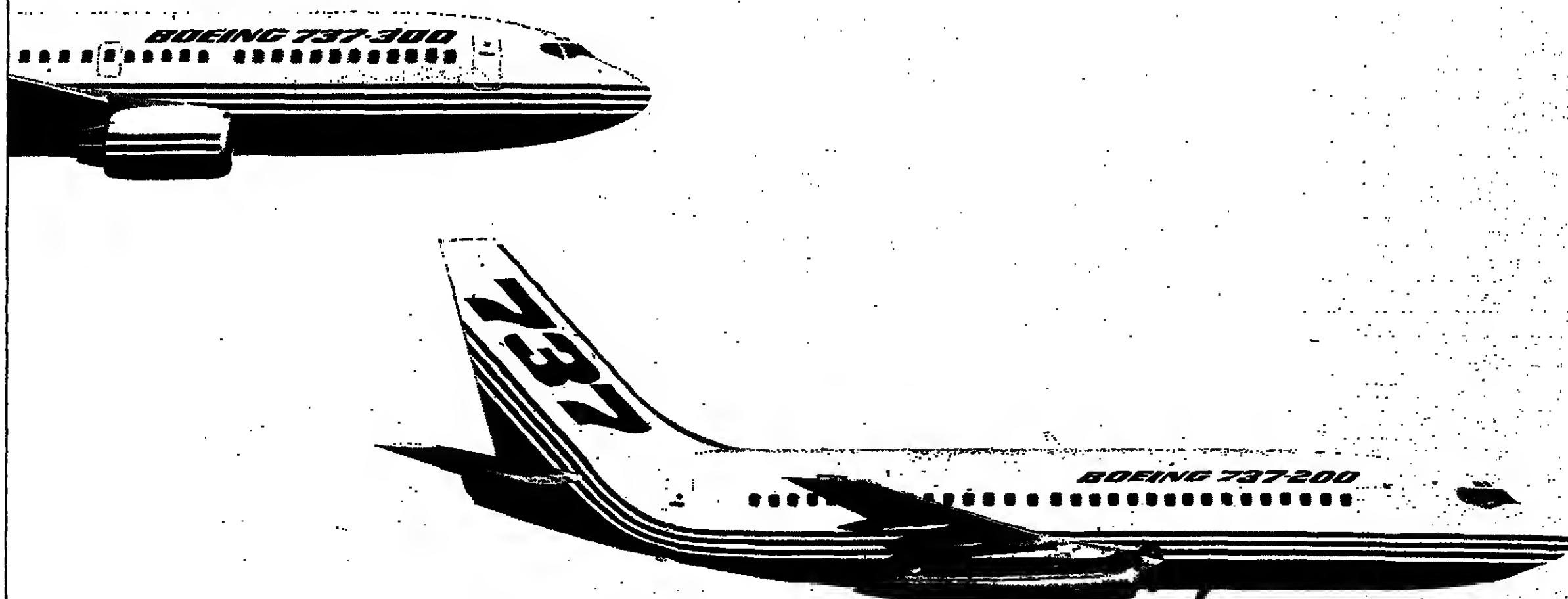
Toyota attributes the increase entirely to the 30 per cent weakening of sterling against the Japanese yen since last autumn.

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UK NEWS

9

Half-price computers for schools

By Raymond Snoddy

PRIME COMPUTER, the U.S. microcomputer manufacturer, has launched an educational programme in the UK involving large discounts for schools and colleges. The aim is to bring the microcomputer within the range of educational establishments which have in the past been able to afford only microcomputers.

Prime believes the discounts could total £5m during the next 12 months if its estimates of sales under its education programme prove correct. All non-profit schools, colleges, polytechnics, universities and research councils are eligible.

Under its Educational Support Programme, Prime is cutting the price of 100 32-bit superminis by half. The complete package of computer software, peripherals and training, normally costing £40,000, will be available for £20,000 for the next six months.

Prime, which had total revenues of \$435m in 1982, is also offering discounts of around 50 per cent on its computer system used for teaching on three-year or four-year degree courses at universities and polytechnics.

Simpler state data sought

AN INVESTIGATION into simplifying the financial information published by the UK Government starts today. Data on the £120m worth of public spending has been described by the chairman of the House of Commons Public Accounts Committee as "so obscure that it is difficult to know what is happening."

Two UK unions plan merger

THE EXECUTIVE of the 7,000-member National Union of Blast-furnacemen (NUB) has agreed merger terms with the Amalgamated Union of Engineering Workers (AUEW). The plan, still to be approved by NUB members, has been described by the 1m strong AUEW as "a springboard for further developments within the UK steel industry."

COMBINING ENERGY TO CUT WASTE IN CITIES

Power-heat plans backed

BY RICHARD JOHNS

GOVERNMENT backing for schemes to combine the generation of power and heat for inner cities of Britain's major conurbations is favoured by the House of Commons Select Committee on Energy.

The committee's recommendations are based on two main considerations:

● About 40 per cent of fuel burned by the electricity supply industry is wasted and could be distributed in insulated pipes from the power stations to domestic and commercial users.

● The belief that "economically and strategically it would be extremely risky" for the UK to continue to rely on natural gas and oil for its supply of residential, commercial and industrial heating.

Of the options available, district heating, based on combined heat and power (CHP/DH) is the best "when economics, comfort, fuel efficiency and long-term environmental benefits are taken into account," the committee says in its report.

It accepts the conclusion of the

feasibility study by consultants W.S. Atkins, commissioned by the Energy Department, that CHP/DH schemes could be economic, on the basis of a 5 per cent real rate of return, in seven of the nine cities surveyed.

Energy Secretary Mr Nigel Lawson confirmed to the committee that a rate of return of 5 per cent would in general be considered economic, depending on the risks involved.

W.S. Atkins found that individual CHP/DH schemes could provide space heating 10 per cent more cheaply than any alternative source. Projects would involve an investment of £348m to £623m but 40 per cent of the cost on average would be incurred, anyway, in providing a necessary increase in generating capacity.

Of the cities studied, Belfast was considered to give the best rate of return, while only Liverpool and Sheffield would fail to yield one of 5 per cent. Other conurbations surveyed were London, Manchester,

Tyneside, Glasgow, Edinburgh and Leicester.

The Government approves the CHP/DH concept in principle, but has so far shown less than an unequivocal enthusiasm, apparently because of the difficulties of implementing any such scheme and the scale of investment involved.

The committee notes that projects could not be financed solely by the private sector because a real rate of return of 5-10 per cent would be too low for the risks involved.

These, in turn, depend largely on Government policy, not least through the financing arrangement for DHP/DH projects and the pricing of alternative methods of heating - in particular from the British Gas Corporation (BGC) and the electricity supply industry.

The BGC is criticised for "iniquitous practices" in penalising existing, efficient gas-supplied district heating plants, not associated with power generation, through charging them more per unit than heating to the same residences.

Energy costs could be 'reduced by a third'

BY RICHARD JOHNS

THE UK could achieve an energy saving of 100m tonnes of coal equivalent - or about a third of current consumption - through cost-effective conservation measures.

The total potential saving would be the equivalent of the output of any of the coal, gas or electricity industries, according to Mrs Jane Carter, who was until last summer head of the energy conservation division at the Department of Energy.

In a paper presented to the fifth annual Industrial Energy Conservation Technology Conference and Exhibition in Houston, she points out that "the role for energy efficiency will become even more important as indigenous production of oil and natural gas peak in the 1990s and decline thereafter."

The figure of a potential 100m toe saving is understood to have come from official estimates formulated at the Department of Energy.

The scope of the cost-effective saving considered possible is likely to give added stimulus to critics

who charge the Government with being lukewarm, if not ambivalent, about investment in conservation as opposed to supply.

In particular, the Department of Energy recently came under fire from the House of Commons Select Committee for Energy for the lack of any clear commitment to conservation suggested by a paper submitted to the Sizewell 'B' nuclear power station inquiry.

Members contrasted it with the more positive attitude shown by an internal study by officers at the Department of Energy which was drawn up last year and leaked to the committee. It suggested that "there is an imbalance between the resources being devoted nationally to conservation and supply and the level of conservation investment is well below what it might be if the underlying economics were the only consideration and there were no institutional or other obstacles to investment."

Hearing on drug licence

By Carla Rapoport

A FIVE-DAY public hearing on the safety of Depo-Provera, an injectable contraceptive, opens in London today.

The UK's Committee on Safety of Medicines (CSM) recommended that the product be licensed for long-term contraception a year ago. This ruling was subsequently rejected by Mr Kenneth Clark, the Minister of Health.

The hearing is at the request of Upjohn, the drug's manufacturer. Depo-Provera has been approved in some 80 countries, including most of the EEC, with estimated annual sales of \$15m.

Critics claim that it creates a variety of harmful effects, including increased risk of damage to the circulatory system, the development of masculine characteristics, weight changes, depression, menstrual changes and higher risk of cervical cancer.

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What if you chose Hewlett-Packard as a computer partner?



"In one year our HP 3000 systems have increased our efficiency by 25% and helped us to the top of a market we had only just entered."

- Val Lewthwaite, Division Manager, WHS Distributors, Leicester.

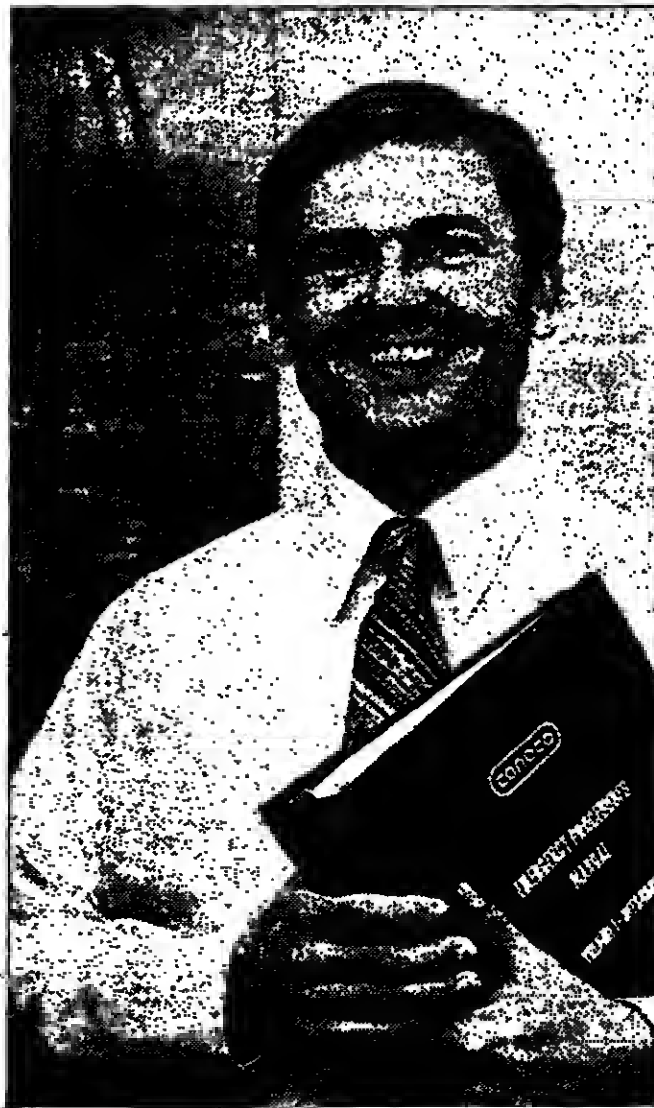
Since WHS Distributors, a division of W.H. Smith & Son Limited, was founded 10 years ago, it has become Britain's leading distributor of hardback books. In 1981, with orders reaching 10 1/2 million books a year they entered an entirely new field - the distribution of travel brochures - and within 12 months, they had won a 20% share of this competitive market.

The rapidly escalating success of both these ventures is not unconnected with the coming-on-stream of two HP 3000 computers.

The first of these systems runs WHSD's uniquely comprehensive book operation. The system encompasses not only the logistics of distribution, but the marketing, sales, accounting, order-processing and stock management functions for some 5,000 current titles. In the past year, the introduction of the HP 3000's and productivity improvements have significantly reduced in-house order processing time.

The second HP system is dedicated exclusively to controlling the intricacies of the travel brochure business - masterminding the distribution of brochures to over 4,500 travel agencies throughout the UK as well as keeping hour-by-hour control of order-processing, stock control, and statistical information. In this time-sensitive business, up-to-the-minute data is essential and a valuable feature of the HP system is its ability to generate ad-hoc reports for tour operators at a moment's notice.

Says Val Lewthwaite: "To be in a position to challenge the market leaders only 12 months after entering the market is very gratifying. It's proved to us how adept the HP 3000 is in taking on highly specialised tasks alongside the traditional business functions."



"Since transferring personnel movement records on to the HP 3000, we've achieved tighter security, streamlined personnel deployment, improved flight scheduling and saved 3 hours admin. time per platform per day."

- Don Anderson, Platform Operations Manager, Conoco (UK) Limited.

Any day of the year there are up to 300 people working on Conoco's Murchison platform. Of these, typically 50 will have just arrived and 50 will be just about to leave.

Traffic on such a scale in so remote an environment is a logistical nightmare. It also makes the statutory maintenance of Personnel-on-Board (POB) records an administrative burden.

So, in 1979-80, Conoco began development of a Personnel Movements Control (PMC) system based on their HP 3000 Series III computer in Aberdeen. It supports data-capture terminals on the platforms and at each end of the key staging posts, programmed for automatic badge-reading and for manual input.

The system has three main elements; a personnel detail file, a flight scheduling service and a continuously updated list of personnel on board. Among the practical benefits, the system allows the helicopter terminal in Aberdeen to schedule flights efficiently, based on accurate passenger and baggage details. Movements to Conoco's North Sea installations from Aberdeen have been simplified for those travelling. In an emergency, information on personnel involved can be provided within minutes - information that could save lives.

Don Anderson says "The system has been very well received - a credit to the HP 3000's user-friendliness. It has already awakened the interest of other North Sea operators."

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ware maintenance and computer supplies. Hewlett-Packard has invested heavily in the provision of customer support centres throughout the UK. HP runs two major training centres at Manchester and Pinewood, near Wokingham, as well as engaging in extensive on-site training programmes.

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UK NEWS

LONDON TRAIN SYSTEM PROPOSALS EXTENDED

Rail extension sought

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT

A PLAN to extend proposals for a light railway system linking the City of London and the Docklands area is being canvassed among local residents by the Greater London Council. The aim is to end the rail link at Stratford instead of Mile End.

The appraisals may also include consideration of the type of rail system to be adopted for Docklands. Plans for a light railway were approved by the Government last autumn.

Existing proposals link Tower Hill on the eastern boundary of the City to the Isle of Dogs, which for centuries has housed the India Mill wall group of docks. Here the line will divide travelling south to Cubitt Town and North to Mile End Road.

The choice of transport system may be limited by the fact that it is planned to run the final section of the northern route for about 800m along Mile End Road. It may be that some variation of the tram will be chosen although this is a term which does not find favour among transport specialists.

Improved transport links are vital if the planned development of Docklands into an area of offices, factories, and housing is to be realised.

The intention had been that London Transport extend the Jubilee

Line, east from Charing Cross to Fenchurch Street or Tower Hill and then east into Docklands, but this was abandoned finally in 1980 on cost grounds. The much cheaper light rail solution was approved by the Government last year.

It will be funded jointly by the GLC and the London Docklands Development Corporation (LDDC) and operated by London Transport. The system choice will be made by the clients, with the advice of LIT an important ingredient in the final selection.

The current costing is put at £77m, and it is intended that the project be operational by mid-1987.

Although small by the standards of some of the major urban transit projects under construction around the world, and much smaller than the Tyne and Wear metro due to be completed later this year, Docklands provides the opportunity for a shapely modern transit system to be built adjacent to the City.

With this in mind, the clients are being assisted by system planners and manufacturers worldwide on the attractions of their particular systems.

This year, the GLC and LDDC asked two transport consulting firms - Henderson Busby, and Kennedy and Donkin - to compile information on all the systems which would be appropriate.

Their report narrowed down the numbers to a dozen which are now under consideration with a view to a decision being taken by the middle of this year and contracts signed probably by the end.

Time and cost limits are tight, but such is the interest being displayed in Docklands by manufacturers intent to break in on what could be an international boom in light rail systems that the price might not be an inhibiting factor.

Systems examined include the driverless VAL project in Lille, to be opened by President Mitterrand next week; the Vancouver and Scarborough (Ontario) systems which have been designed by UTDC (Urban Transportation Development Corporation) in Canada; and the Westinghouse "people mover" concept which is being put into airports, including Gatwick.

That these systems have not been designed in the UK does not preclude UK participation. Companies like Matra (which has done Lille) and UTDC are well aware that their chances would improve if they brought British companies into the package, and to this end, Matra is talking with GEC, and White Young, and UTDC with Metro Cammell.

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BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	Incentive Marketing and Sales Promotion Exhibition (01-688 7788) (until April 27)	Brighton
April 24-27	Incentive Marketing and Sales Promotion Exhibition (01-688 7788)	Brighton
April 25-29	Packaging and Brewing Exhibitions—PAKEX and BREWEX (Solihull) (021 705 6767)	NEC Birmingham
April 26-28	Site Equipment Demonstration—SED 83 (01-604 9504)	Hatfield
April 26-29	International Land Reclamation Conference and Exhibition (Chelbridge Wells) (0223 44027)	Civic Hall, Essex
May 10-12	Riba Computer Conference and Exhibition (01-637 8991)	Bloomsbury Crest Hotel, Olympia
May 15-19	Interior Design International (01-540 1101)	Kensington Exhibition Centre, W8
May 16, 17	Direct Marketing Fair and Conference (0727 25228)	Barbican
May 24-26	International Conference and Exhibition on Computers and Communications in Investment Banking and Insurance (Northwood Hills) (04274 28211)	Wembley Conference Centre
May 24-27	International Conference and Exhibition on Advertising Business Systems Show (01-637 7488)	Press Centre, EC4
June 1	Chemical and Processing Engineering Show—EXPOCHEM (01-747 3151)	NEC Birmingham
June 8-10	Shoppers International (01-540 1101)	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	Construction Indonesia '84 (01-486 1961) (until April 28)	Jakarta
April 24-29	International Technology Fair—TECHEX 83 (01-584 6748)	Lyons
May 6-10	2nd Exhibition of Systems, Components and Materials for the Industrialised Building Sector—SICOMAT '83 (01-486 1961)	Milan
May 7-10	Manila Apparel Market Week (01-248 0742)	Philippines
May 17-19	Europe Software Exposition (01-486 1961)	Utrecht
May 17-20	Technology/Inspec Exhibition (Pittsburgh) (412 662 7888)	Pittsburgh
May 24-27	International Trade Fair for Industrial Cleaning and Maintenance (020 5411411)	Amsterdam
May 27-June 5	Paris Air Show (730.61.08)	Paris
June 8-10	International Telecommunications Congress and Trade Fair—ITCOM (01-486 7251)	Cologne

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
April 26	Macroeconomics: The unlisted securities market—year three (01-637 7438)	Press Centre, EC4
April 27	Oyez IBC: TV—the gathering storm. Where does television go from here? (01-238 4080)	British Academy of Television Arts, W1
April 27	Somerset Associates: The UK economy 1983-4 (01-584 6748)	Centre Point, WCI
May 5-6	Monaco: Successful joint ventures in Egypt (01-282 2732)	Press Centre, EC4
May 9-11	IRS: 10th Zurich International corporate finance conference (01-637 4383)	Zurich
May 10-12	RRG: International insurance conference (01-238 2175)	Jersey
May 11	IRS: Employment law update 1983 (01-328 4751)	Carlton Tower, London
May 17	London Chamber of Commerce and Industry: What London Chamber of Commerce and Industry should know about pensions (01-248 4444)	London Chamber, 69 Cannon Street, EC4
May 17-20	Lloyd's of London Press: Ocean carriers' rights and liabilities (01-247 9451)	Royal Horseguards Hotel
May 17-20	EVAP: Business research for corporate development (01-486 1221)	Hamburg
May 18-20	Dataseq: 1983 (European semiconductor conference) (01-408 1427)	Mosito Carlo
May 18	Eurofi: European Community finance for commerce and industry (Newbury) (0885) 31900	Plymouth Guildhall
May 18-20	Insider 2nd international seminar—ending in banking (Paris) (1 763.07.34)	Madrid
May 24	Chatham House: Hawke's Australia, chances of economic recovery (01-430 2233)	St. James's Square, SW1
May 24	Industrial Society: Quality circles—keeping the enthusiasm going (01-439 4300)	Carlton House Terrace, SW1
May 24, 25	British Franchise Association: Expansion through franchising (Coburn) (044) 4908	Holiday Inn, Swiss Cottage
June 1	Brighton Polytechnic: Interactive video and computer training (Eastbourne) (0323) 21400	Eastbourne
June 1, 2	FT Conference: Vehicle companies (01-671 1353)	Geneva
June 6-10	Management Centre Europe: International negotiations (219.03.90)	Brussels
June 9, 10	Frost and Sullivan: Systems network architecture (01-486 0334)	Cumberland Hotel, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change to the details published.

Financial Times Conferences

THE OUTLOOK FOR MOTOR COMPONENTS

Geneva, June 1 & 2, 1983
The Outlook for Motor Components conference in Geneva on June 1 and 2 has already attracted very substantial delegate interest. The sponsors are pleased to announce that the Chairman of General Motors Corporation, Mr. Roger B. Smith, has accepted their invitation to deliver the Keynote Address on the second day and this adds still more to the authority of the speaker platform. This is the first Financial Times Auto conference to be addressed by one of the world's leading motor manufacturers and his contribution together with those of component producers, bankers, officials and other car producers will provide a very thorough assessment of the prospects for the business over the next five years.

PROFESSIONAL PERSONAL COMPUTERS: MARKETS AND STRATEGIES

London, October 11 & 12, 1983
This major conference will review the rapid growth in the professional personal computer industry, its markets and how development will affect the business user.

THE FT WORLD GOLD CONFERENCE—THE OUTLOOK FOR GOLD AND SILVER

Laguna, June 22 & 23, 1983
The Outlook for Gold and Silver conference in Laguna on June 22 and 23 has already attracted very substantial delegate interest. The sponsors are pleased to announce that the Chairman of General Motors Corporation, Mr. Roger B. Smith, has accepted their invitation to deliver the Keynote Address on the second day and this adds still more to the authority of the speaker platform. This is the first Financial Times Auto conference to be addressed by one of the world's leading motor manufacturers and his contribution together with those of component producers, bankers, officials and other car producers will provide a very thorough assessment of the prospects for the business over the next five years.

Please address all enquiries to:
The Financial Times Conference Organisation
Minster House, Arthur Street
London EC4R 9AX

Tel: 01-621 1355
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US\$12,100,000		US\$6,009,572

Electro-Protective Limited ("EPL") is the new holding company of Electro-Protective Corporation of America ("EPCA"). Pursuant to an Agreement and Plan of Reorganisation dated 14th April, 1983 and an Agreement of Merger dated 22nd April, 1983 all the existing shares of EPCA have been cancelled and EPCA shareholders will receive the same number of shares in EPL of the corresponding class.

The Council of The Stock Exchange has admitted to the Official List all the issued Common and Preference Shares of EPL. Dealings in the new EPL shares will commence today.

Particulars of EPL and its subsidiaries (including EPCA) are available in the Extel Service and copies of such particulars may be obtained during usual business hours on any weekday (Saturdays excepted) up to and including 10th May, 1983 from:

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100 Old Broad Street,
London EC2P 2HX

25th April, 1983

APPOINTMENTS

Lazard Bros. finance director

Mr R. P. West has been appointed finance director of LAZARD BROS. AND CO. from May 23.

Mr T. Stewart Jamieson has joined the board of W. E. NORWEST (HOLDINGS) as chief executive and Mr J. A. Metcalfe and Mr W. Fitch have joined as non-executive directors. Mr P. B. Norton has retired from the board.

Mr Tony Hargreaves, sales manager and Mr Iain MacDonald, product and services manager have been appointed to the board of BUTLER INTERNATIONAL.

Mr John Sutherland, former managing director of Marconi Radar Systems has joined CAMBRIDGE CONSULTANTS.

Mr Richard Arthur Hurst, has been appointed company secretary of REDIFFUSION on the retirement of Mr D. A. Smith. Since 1978 Mr Hurst has been principal assistant to the secretary and has also been secretary to the company's corporate planning group, an appointment which will remain.

Mr Robert F. Bruce has been appointed as director-finance of the UNIPART GROUP responsible for financial control of all Unipart's operations, UK and worldwide. He was with Black and Decker as financial controller UK.

Mr Robert Lawrence has been appointed to the board of the BUILDING GROUP as a non-executive director. He is a member of the British Railways Board and chairman of the British Rail Property Board, the National Freight Consortium, Property Group and National Bus Properties.

Mr N. W. Nisbitt retires as a director of GARDNER MOUNTAIN AND CAPEL-CURE AGENCIES on April 30. Mr M. J. Terry and Mr P. Moore have been appointed directors from May 1.

MAX FACTOR has appointed Mr Hugh G. C. Wickes as marketing director in succession to Mr Mike Widdie who recently resigned. Mr Wickes was previously marketing director (UK and Europe) with Fabergé Inc.

OGLE DESIGN has appointed Mr Bob Saunders as director,

transport design. He was with Ford Motor Company in the UK for interior and exterior styling on cars, vans and trucks. He replaced Mr Richard Hamblin who has joined Austin Rover.

ALLIED-LYONS has appointed Mr J. E. Silverman as a director. He is an assistant managing director of J. Lyons and Co. food division of the group, and is responsible for the cake, biscuit and confectionary businesses.

Mr Michael Chitty has been appointed company secretary of WILLIS FABER.

Mr Bryan Wallace has been appointed chairman of T. C. THOMPSON AND SON. His company, Romney, acquired 74 per cent of T. C. Thompson from Saina Group, Sweden.

THE GOODYEAR TYRE AND RUBBER COMPANY has appointed Mr G. E. Lawrence as managing director of Tyre-services Great Britain, Goodyear's retail organisation, following the re-assignment of Mr T. A. Walker. Mr Lawrence served as sales manager of Tyre-services prior to his return to the Goodyear parent company in January 1979 as marketing manager. Mr Walker is now in charge of special projects, working from the Goodyear chairman and managing director's office.

The BUILDING GROUP has appointed Mr Neil Murphy as editor-in-chief of Building Publications. This is additional to his position as managing director of that company. Mr Graham Rimmer becomes editor of "Building".

Following the completion of the acquisition of Wentworth, Import and Export, Mr David G. Pearce has been appointed director of THE ALBERT FISHER GROUP.

Mr John G. Payton, has been appointed managing director of THORN EMI INSTRUMENTS, Dover. He succeeds Mr Christopher Power, who was recently appointed president of Syntron-Danner Inc.—Thorn EMI Technology's American electronics subsidiary in California. Mr Payton was managing director of Thorn EMI Electrical Components.

CONTRACTS

Norwest Ho'st wins £14m

NORWEST HOLST companies have been awarded three contracts totalling £14m. Norwest Holst Civil Engineering has been awarded a £3m contract by the Yorkshire Water Authority for reinforced concrete works including tanks, filters with structural steel frame and cladding, a filter press house and administration block at Langsett Treatment Works, Sheffield. Work has started and completion is expected in August 1983.

Norwest-Socsa has been awarded a £5m contract by Shell Exports for the installation of 91 km of welded steel pipeline running from west of Aberdeen to south of Kilmuir. The installation includes crossings over road, rail and the River Dee. Work started in March, with completion in August 1983.

Norwest Holst Pipework Services has been awarded a £5m contract by North West Gas in North Lancashire, Cheshire and Mersey areas. Work has started and completion is set for March 1985.

CAPPER NEILL INTERNATIONAL has won a £4.5m two-year contract for the selection, supply, installation and commissioning of all mechanical plant and electrical and control equipment for the future principal service reservoir pumping station in Doha, capital of Qatar.

The station will be computer controlled and have a capacity of around 30m gallons of potable water a day. It will be situated adjacent to the site of Doha International Airport. The client is Qatar's Ministry of Electricity and Water.

WHITTINGHAM CONSTRUCTION, Wolverhampton-based construction arm of the Whittingham Group, has won building contracts worth £2m. Largest is a £1.1m industrial develop-

ment at Wales Farm Road, Acton, for the Sun Alliance Insurance Group where 15 units are to be built in sizes around 1,500 sq ft with a total space of 36,000 sq ft. The units will be available in the autumn. At Soley Park, Lichfield, Whittingham has negotiated an £800,000 contract to build 24 industrial units to form the second-phase of a development by Barratt (Southern) Properties. This phase will comprise starter units of 1,000 to 3,000 sq ft on a two-acre site. An office development at Staines for Montpelier Estates, a subsidiary of London and Edinburgh Investments is worth £540,000. Lastly Whittingham Construction's sister company, Whittingham Property, has awarded a £700,000 contract for the construction of two units at Staples Corner. The development provides 36,000 sq ft of accommodation.

A £3m contract to construct new living quarters and recreation facilities for the Ministry of Defence at Howe Barracks, Canterbury, has been awarded to BOSKALIS WESTMINSTER CONSTRUCTION by the Property Services Agency. The two-year contract started on April 14. Twenty-two units, each designed

to house 18 men, will be constructed in a courtyard layout. The existing warrant officers and sergeants mess will also be refurbished and extended to incorporate additional bedrooms and some existing junior servicemen's living accommodation, for single occupancy, will be altered internally and extended.

Y. J. LOVELL (LONDON)—part of the Lovell Construction Group—has just started a £2.83m reconstruction project for Prudential Assurance at 29 Queen Anne's Gate, SW1. The 85-week contract involves retention of the building's existing facade. When completed, the building will provide around 26,000 sq ft of air-conditioned office space on basement, ground and six upper floors. External design includes red facing brickwork, and block cavity walls on a reinforced frame.

Joannou and Paraskevaides, an international construction company, has placed an order, worth over £1.8m with HAWK LIFTING SERVICES for 16 Mustangs B 740 cranes and four B 850 machines which will be shipped to Saudi Arabia for use in major construction projects.

EUROFI (UK) LIMITED 1983 SEMINAR PROGRAMME

Following the successful programme of seminars held during 1982 on access to European Community Funds, Eurofi (UK) Limited are sponsoring an extended programme for 1983. The seminars will be held on the following themes at several regional business centres in addition to those held at the London Business School.

UK Government Financial Incentives for Commerce and Industry, 27 September 1983 London Business School
European Community Finance for Commerce and Industry, 18 May 1983 The Guildhall, Plymouth
The European Development Fund, EEC Supplies, Works and Consultancy Contracts, 14 December 1983 London Business School

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INTERNAL MEMORANDUM

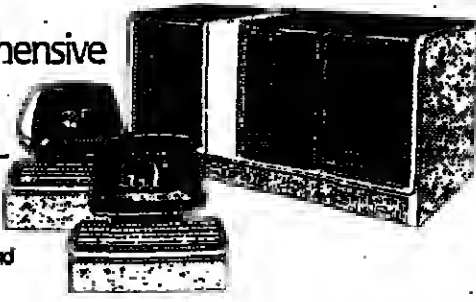
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EDITED BY ALAN CANE

ADVANCES IN MEDICAL DIAGNOSIS

Do-it-yourself heart kits 'by 1990s'

BY RAYMOND SNOODY

CARDIAC DIAGNOSIS kits for everyone to use in the home or office should be commercially available by the mid-1990s, according to a new report on cardiovascular drugs and instrumentation.

The developments which would appeal to both hypochondriacs and those trying to reduce heart attacks would result from the widespread diffusion of sophisticated medical devices from hospitals to doctors' surgeries and on to the consumer.

New computer-based technology would mean that cardiac testing now carried out exclusively in hospital could be carried out in doctors' surgeries quickly and cheaply and would become as routine as a trip to the dentist.

Such a move, and the arrival of the family electronic sphygmomanometer for measuring blood pressure, would mean the natural predecessor of a home-based cardiac analysis system "which should come into commercial operation by the mid-1990s."

Because of the possibility of such technological advances, diagnostic cardiologists' equipment had the greatest market potential of the whole cardiovascular industry. Predictions, the U.S. research organisation believes.

Sales of such equipment in the developed world approached \$125m in 1981—a 18.6 per cent increase a year from 1980. They would reach \$200m by 1995, showing a 12.6 per cent annual increase over the period.

Demand for heart-related medical products in the developed world increased at an average annual rate of 10.2 per cent in real terms between 1967 and 1981 to over \$7.4bn.

The fact that heart disease continued to be the number one health problem in most countries combined with technological developments in diagnosis, monitoring and treatment meant fast growth for the manufacturers of cardiovascular drugs and equipment.

Real growth has ranged between 9.8 per cent and 11.5 per cent although cuts in health spending and the maturity of some products would tend to reduce the rate of growth in future.

However, "cardiovascular medical product markets in the developed world will, in aggregate, continue to increase more rapidly than most other health care product markets and much more rapidly than markets for manufactured goods" in general, Predicts believes.

By 1995 spending on all cardiovascular products will approach \$200m, in 1981 dollars, given real growth of around 7 per cent a year. This will be faster in the pharmaceutical than the instrumentation sector. Future growth would be

fueled by a steady influx of new products and processes, and the increasing ability of less developed nations to buy more advanced technologies.

The drugs which will show the fastest growth will be beta-adrenergic blocking agents and calcium channel blockers. Beta blockers can slow the heart beat rate, reducing the frequency and intensity of angina attacks and also lowering blood pressure.

Calcium blockers, which inhibit the flow of calcium ions can be effective in controlling the rhythm of the heartbeat.

The attraction of both beta and calcium blockers, according to Predictors, is that they attack the symptoms of several heart-related disorders.

Another group of drugs—vasodilators which dilate blood vessels allowing more blood to flow—would also show above average growth. And hopes for the future include preparations which can actually stop heart attacks in progress. Preliminary results on one such compound being tested at the Medical College of Pennsylvania were encouraging.

Cardiovascular pharmaceutical sales as a whole will, according to the report, total \$16.8bn (at 1981 prices).

In the equipment sector the main growth would come from implantable pacemakers. They would account for an estimated \$2.5bn sales by 1995.

Another growth area would be in defibrillators and resuscitation equipment, especially in the mid-to-late 1980s. Defibrillators are used to eliminate quivering of the ventricles of the heart which prevents useful pumping of blood.

"The most significant development in defibrillator technology in the 1980s will be implantable devices," says the report.

Researchers at Johns Hopkins Medical Institution in the U.S. are working on an implantable device which will detect ventricular fibrillation and restore a normal heart rhythm by sending out electrical discharges. The implantable device will push defibrillator sales towards \$1bn by 1995.

Although growth for the whole cardiovascular sector would be dramatic there are relatively high barriers to entry of the market because of the need for continuous and costly basic research and new product development.

"Companies with already established R&D capabilities and positions in important institutional markets will be in the best position to exploit the growth opportunities of the 1980s and 1990s," says Predictors.

Cardiovascular drugs and instrumentation from Predictors 200 University Circle Research Centre, 11001 Cedar Ave, Cleveland, Ohio 44106.

KODAK JOINS THE LIST OF CONTENDERS FOR OPTICAL DISC SYSTEMS

Data from a silver disc—and card

BY GEOFFREY CHARLISH

IN RATHER low key, Eastman Kodak reveals it is developing an optical disc for data storage but—not surprisingly—only as part of a total information strategy that continues to make use of microfilm as a basic data storage medium.

Kodak says its design is based on ten years of research backed by a broad experience in coating thin layers of chemicals on to polymer surfaces. In cross section the disc has two tightly stretched polymer sheets separated by eight thousandths of an inch. The outer sheet acts as a protective covering to keep dust and fingerprints off the recording surface.

The surface has three layers: the upper coating records the information, the second reflects light to aid the recording and reading of data while the bottom layer provides the basic ultra-smooth surface needed for recording.

A laser is used for both recording and playback. The recording head focuses a diode laser beam on the surface, burning microscopic "pits" that represent binary data. The data is read by another laser that detects the different reflectivities of the pits in relation to their surroundings.

Impressive laboratory results have been obtained says the company—it is claimed that digital information can be recorded at rates up to 24m bits per second.

A single disc can store 5,600 megabytes or nearly 46m bits of information. Assuming the average paper document holds about 4m bits, the disc can hold more than 100,000 pages using digital compression techniques according to U.S. sales executive John Lacey. This is the equivalent of about 50 magnetic tapes or 2,000 floppy discs.

Kodak does not reveal when its disc will emerge from development; when it does it will presumably be competitive with offerings similarly emerging from such companies as Sony, Philips, Shugart and Drexler.

It will also come up against the important development from Matsushita, announced in the last few days, in which data can be erased as well as written on an optical disc.

In any event, the corporation is talking in terms of micro-image transmission systems in which frames of film will be robot-extracted from mass film stores, scanned electronically into a digit stream and transmitted over phone lines, fibre optic links or satellites.

Lacey, who was outlining Kodak's strategy in Philadelphia recently, predicted "distinct interaction between microfilm and optical disc." He felt that users might capture data on optical disc for rapid access during the first 80 days of storage, committing it to microfilm for long term storage after the period of high activity passes.

The latest participants in the Drexler laser card equipment development and licensing programme are three major Japanese companies—Canon, Fujitsu and Kanto Denchi.

This brings the total of licensees to seven: the others are NCR, Ericsson Information Systems, Toshiba, and Elbit Computers in Israel.

The Drexler development, first announced in June, 1981, allows an astonishing 800 pages of text (about 400,000 words) to be stored on a 35 x 80mm stripe laid down on a credit card-sized piece of plastic. By comparison, the magnetic stripe on a current credit card can hold about 45 words.

The material used is an organic film into which very fine metallic reflective particles have been introduced on the surface. A fine laser beam turns the surface a non-reflective black in tiny areas that represent digital "thoughts" and "ones." Another laser unit reads the digits.

However, the system, called Drexon, is non-erasable and the recently introduced alternable system from Matsushita in Japan puts the Drexler and similar optical systems now emerging from such companies as Sony, Philips and Shugart in a rather different context.

The seven licensees are paying \$200,000 each and will receive designs of equipment for using the cards, non-exclusive use of equipment patents, and distributor rights to purchase cards from Drexler on a volume basis for resale.

Drexler's allies grow

Most contenders in this field have followed the rotating medium path—presumably because that is how makers and users alike have perceived bulk storage from the days of the big fixed discs.

However, discs are not necessarily the best proposition from the portability standpoint, simply because rectangular objects can generally be carried and stored more easily and economically.

This, and the fact that there has been some natural follow-on from the idea of storing data on the credit card is probably what prompted Drexler Technology Corporation and Stanford Research Institute to look at rectilinear scanning.

The only other announced alterable system is Bell and Howell's Microx, although this has been aimed at microfilm recording and updating and employs heat rather than light.

There is a school of thought in the industry however, that believes erasability is not of major importance since so much can be written by these systems in such a small area that it will be perfectly reasonable to always re-write, ignoring all previously written data.

For example, a single card could hold 20 to 30 programs for personal computers, or a very large amount of text. In banking and retailing the cards could carry extended information for transaction purposes.

Furthermore, a number of the cards could be held in cigarette pack-sized containers.

For quantities of 100,000 identical cards the price to distributors will range from \$1.50 for a card that is either blank or pre-recorded with 1m bits, up to \$6.25 for a card with 16m bits.

The seven licensees are paying \$200,000 each and will receive designs of equipment for using the cards, non-exclusive use of equipment patents, and distributor rights to purchase cards from Drexler on a volume basis for resale.

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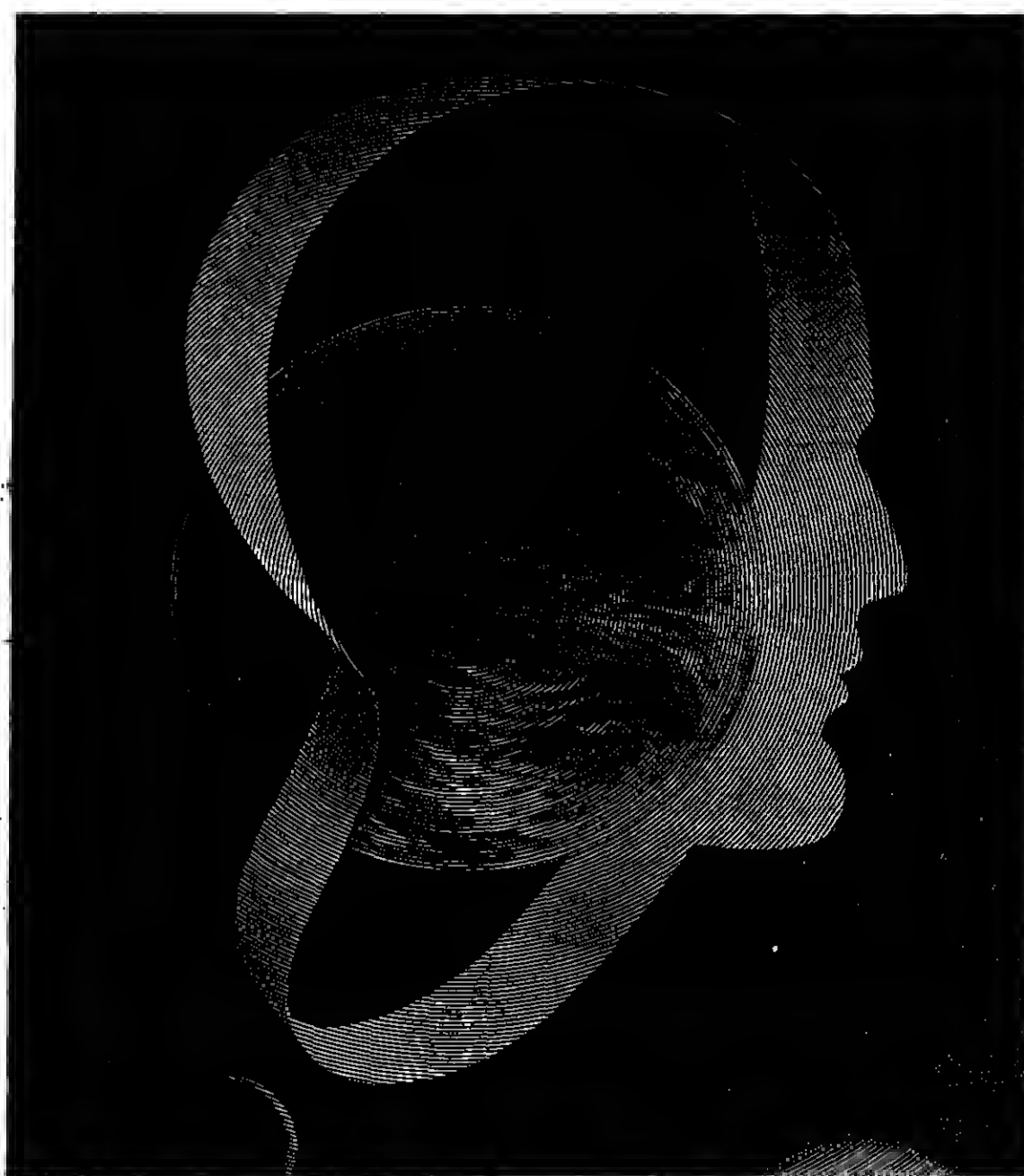
Peripheral switching

INTRODUCED BY T-Bar International (Europe) of Slough is a switching unit designed for use in data centres where there is a need physically to switch computer peripherals such as disk or tape controllers, printers and terminals.

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Field expansion can be continued from the basic 1 by 4 matrix up to 16 by 24 and beyond, in single CPU channel or switchable port increments.

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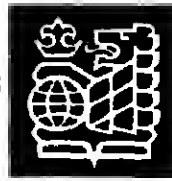
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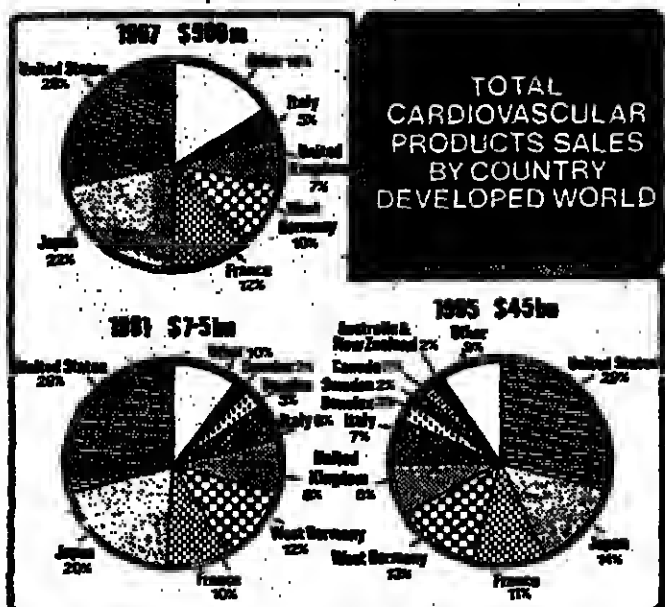
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Thinking again about
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Confidence restored for cavity foam

THE UK cavity wall insulation industry is delighted with the decision by the U.S. Federal Appeals Court to overturn a nine-month ban on the sale of ureaformaldehyde foam.

The ban caused widespread repercussions in other countries and hit sales of all types of cavity wall insulation, not least in the UK where sales of foam products were already reeling in the wake of bad publicity. Some companies were reporting a slump in sales of up to 75 per cent and one major company went into receivership.

Sales are only just beginning to recover and the decision by the Federal Appeals Court should help restore public confidence and improve sales still further.

The U.S. ban was introduced partly because no technical standards were in existence to oblige installers to maintain adequate workmanship and partly because American homes—with their extra wide cavities, impermeable external surfaces and permeable inner linings—are unsuitable for such insulation.

The Court has now found, however, that the decision by the Consumer Products Safety Commission was based on inadequate evidence and that it had used improper regulatory pro-

cedures that denied the industry a fair hearing.

Mr Paul Denham, chairman of the Cavity Foam Bureau, says that sensational reports on the ban undermined public confidence, leading to the failure of several insulation companies and ultimately costing householders many millions of pounds in bills for wasted fuel.

He commented on the U.S. decision: "It will undoubtedly help to restore the public's faith in the benefits of cavity foam insulation. We welcome the commonsense that this new ruling represents."

The National Cavity Insulation Association, which was furious with what it called "one-sided publicity" also welcomed the American decision. Mr John Baker, chairman of the association, said the move represented a positive step towards re-establishing confidence in UK foam insulation as well as other available forms of insulation, providing they are correctly installed.

Mr Baker said that the U.S. authorities would be "well advised" to introduce the tight control, high standards and safeguards that the UK industry has—with government support—set up to supervise its activities.

MICHAEL CASSELL

When the oil rigs and the nuclear power stations have to come down

A STRATEGY for ensuring that the demolition and dismantling of the oil rigs and nuclear power stations is undertaken safely and efficiently is presented in a new report published by the Civil Engineering Economic Development Committee.

The report, prepared by a sub-group of the committee, says that for far too long the demolition and dismantling of redundant structures has been regarded as a "Cinderella activity" by those in construction.

But new business prospects arising from offshore platform removal, nuclear decommissioning and the restructuring of processing industries with excess capacity will, it says, provide an increasingly significant element in the future workload of the industry. About 10,000 people work in the industry, most of them in companies with fewer than 25 employees.

The report recommends that a steering committee set up by United Kingdom Atomic Energy Authority to oversee the full decommissioning and removal of the Windscale advanced gas-cooled reactor.

On offshore platform removal, the report says it anticipates that, during the next decade, there will be a handful of platforms abandoned for economic reasons or because of structural unsoundness. Beyond 1995 a significant upsurge in platform abandonment would occur.

A key recommendation in the report is that the availability in Britain of the technical resources required to undertake removal needs to be evaluated, and any areas for improvement identified. "The absence of very heavy lifting capacity in Britain is a matter for particular investigation," said the committee.

On nuclear decommissioning the report said there were 300 nuclear power stations already in operation worldwide and a further 200 under construction. A member of the EDC sub-committee responsible for the report has already joined the steering committee set up by United Kingdom Atomic Energy Authority to oversee the full decommissioning and removal of the Windscale advanced gas-cooled reactor.

The Windscale project was the first of its kind and British engineers would gain knowledge which, the report says, should be fully exploited. The Central Electricity Generating Board has offered to provide instruction to companies in safety requirements.

The report adds: "The industry should avail themselves of this and consider in particular whether demolition and dismantling engineers could spend periods with operators (for example during technical training or by short secondments) in order to develop awareness of the nuclear environment and its implications for decommissioning. Those companies which aspire to nuclear work should be laying the foundations now," the report adds.

The EDC intends to hold a conference in June to discuss the report and its implications. *Growing Markets for Demolition and Dismantling — a strategy for the UK industry. Available from NEDO Books, Millbank Tower, Millbank, London SW1P. Price £5*

LISA WOOD

High rewards in renovation trade

WALKING THE streets can be a lucrative pastime. For Brian Whitty, it is a way of life which has helped him build up a group of companies specialising in refurbishment and, starting with a £2,000 stake ten years ago, now netting up an annual turnover of more than £6m.

Whitty has just been awarded the £138m contract for the second phase of refurbishment at the Mayfair Hotel in London's West End. He completed the first, £15m phase in May of last year and will be negotiating for the final phase which is expected to take the total cost of work on the hotel close to the £6m mark—a very big refurbishment job in anyone's terms.

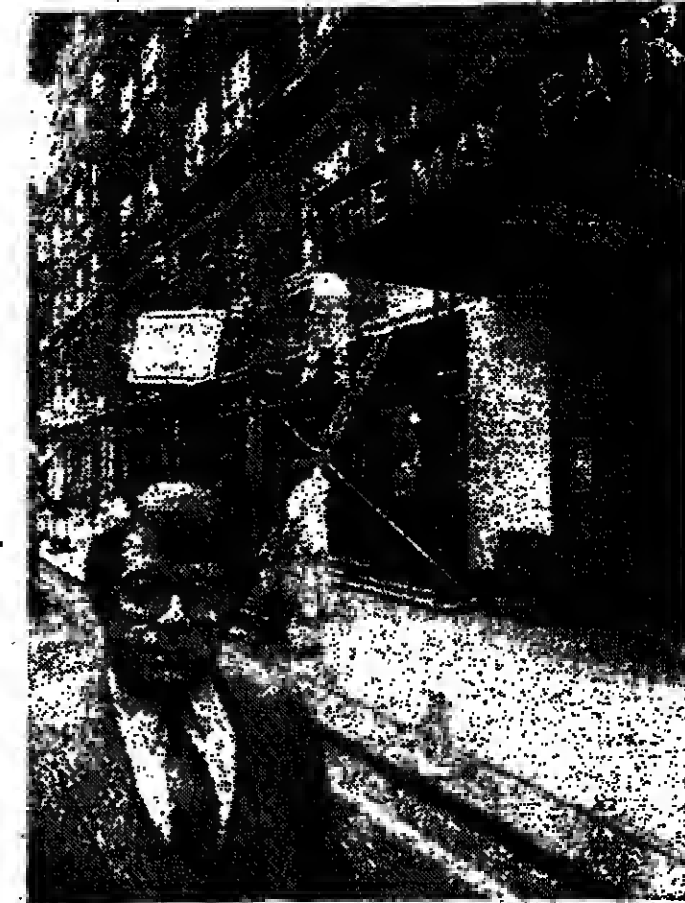
His methods are old fashioned but effective. Whitty gets up at 5 am at his home in Bromley, and aims to be at his headquarters in Bromley, south-east London, by 6.30. "The paint distribution company opens at 6.30," he says, matter-of-factly, "and I check that and the joinery shop for materials, which have to go up to town." Having set the day up, Whitty "jumps" one of the transports going to town, aiming to get to his first site in the West End by 7.20 am to 7.30 am—he is also refurbishing the main kitchen at the Waldorf, and working on the London Coliseum Theatre in St Martins Lane.

It does not have to be a West End start. Whitty varies the pattern, by design. "It could be Maidstone; it could be Windsor," he says with an expression which suggests that site foremen would be well advised to remember that.

By 8 am he is checking people coming in at different jobs, talking to site agents and general foremen. Then he walks round all his major sites in the course of a morning. "At the same time I pick out estate agents and property people and send them brochures. It brings in a lot of work."

Sit meetings, and half-hourly check calls to head office fill in the rest of the day. "We had seven roofs leaking after the downpour last Monday morning," he says, accepting that refurbishment projects will have their fair share of burst pipes and overflows.

He gets back to base at 5 pm to "sort out problems in the office," aiming to get home by 8 pm—and even then he spends



two hours on the telephone before calling it a day. "I'm doing a job I really shouldn't be doing," says Whitty, nestled in a low chair like an Irish Ronnie Corbett. "Normally the chairman of a group of companies has men on the road but often he doesn't know what's going on and the client likes to deal direct with someone who does."

"At any given job I can walk in and see if there is a man who is not up to standard," he says. Refurb is a skilled business, and the Brian Whitty group has a total labour force of only 200. "He can put in ten to a dozen regulars—'top men'—as a basic team and employ others on a casual basis."

Sometimes, he sees that there are just too many men on the job, and someone gets his marching orders. "Refurbishment men are good," he says. "They know that jobs don't last forever, and that they can move to other good sites, in the

organisation or out of it." Whitty owns 70 per cent of his business and is financial director, "accountant, David Walker, the other 30 per cent. So far, he has not needed outside financing except a £700,000 overdraft facility from Natwest on which he is currently renegotiating to get the limit raised to £1m."

Now he sees a massive amount of work in prospect and expects to get a fair share of it, aided by a broad range of in-house refurbishment specialties, which help to keep his overall tender prices keen.

He is also exploring the idea of outside investment. "Eventually we will have to let some of the company go," he says, "maybe within two or three years." An Unlisted Securities Market quotation, or a private placing with institutions, are among the ideas floating out from City of London sources.

WILLIAM COCHRANE

Putting a 'top hat' on it

A SPECTACULAR way of extending existing buildings upwards is being pioneered by Premier Construction of Blackburn, one of Britain's leading manufacturers of timber, prefabricated buildings.

Its new "top hat" system involves factory-building a complete new storey which is then hoisted on to the top of an existing building, the first being a drawing office for Manchester consultants R. W.

Gregory and Partners.

"We nearly bought Manchester to a standstill in putting it up," says Brian Cottam, Premier's managing director, talking of sightseers rather than operational disruption. "We made it in five pieces, weighing eight tons each, on the factory floor and lifted it into place with a 40-ton crane."

Cottam claims "top hat" life expectancy is "no less than that for any other orthodox struc-

ture"; floor loading of 140 lbs per sq ft, "capable of accepting computers"; relatively little weight on existing foundations and the ability to turn a two-storey ugly duckling into "a beautiful, three-storey job."

"Since delivering the system," he says, "we have noticed hundreds of buildings mainly in the large inner city areas where similar structures could be erected with ease."

CONTRACTS

Tarmac wins £11m orders

Contracts worth more than £11m have been awarded to TARMAC CONSTRUCTION. The largest, at just over £7m, is a management fee contract for phase three of demolishing and rebuilding the Heales store, Reading, for John Lewis Properties. Work is scheduled to take nearly two years and will be carried out by Cubitts Management Contracts, part of Tarmac Regional Construction.

Other contracts awarded to Cubitts companies include fitting out a supermarket in Cromwell Road, London, for J. Sainsbury (£1.5m); a single-storey mail distribution building at Liverpool Airport, for the Post Office (£800,000); alterations and adaptations to form new Red Star offices at Bristol, for the British Railways Board (£419,000); and external repairs and repainting of 388 homes at Halewood, Merseyside, for Knowsley Metropolitan Borough Council (£335,000).

Tarmac Regional Construction contracts include modernising

107 homes at Rotherham, for Rotherham Metropolitan Borough Council (£718,000); and designing and constructing a coal stocking area as Blyth, Northumberland, for the Central Electricity Generating Board (£500,000).

PRESS CONSTRUCTION has won another mains and service paying contract for West Midlands Gas. Worth around £5m, the two-year contract starts in April. The company's distribution region will lay mains and services and carry out repairs in the Dudley and Sandwell districts and in southern and eastern parts of Birmingham.

Two contracts have been awarded to DAVID ROOFING (part of the Amsteel Group). British Leyland has ordered £125,000 worth of work at its Pressed Steel Fisher premises at Swindon, Wilts. It will involve stripping the existing roof, re-insulating the waterproofing, and using the Monoform system.

Winning with partitions

THERE IS money in religion. DCB Integration Systems, winners of the Partitioning Industry Association national award for craftsmanship for 1982-83, have taken it with a £200,000 contract to fit out new premises for the World Wide Church of God at Elstree.

Glen Breaden, managing director of DCB, notes that the job was a pretty comprehensive one. But an important element in the cost was extensive finishing in Rio Rosewood hanging panels—where one panel measuring six feet by four comes to around £550.

This is the second year run-

ning that DCB, founded by chairman Derek Breaden, has won a top award from the PIA. Last year it took a Class 1 award for the design and fitting out from scratch of a new self-contained, four-floor Harrow office block for Millipore UK, the British arm of an international chemicals company.



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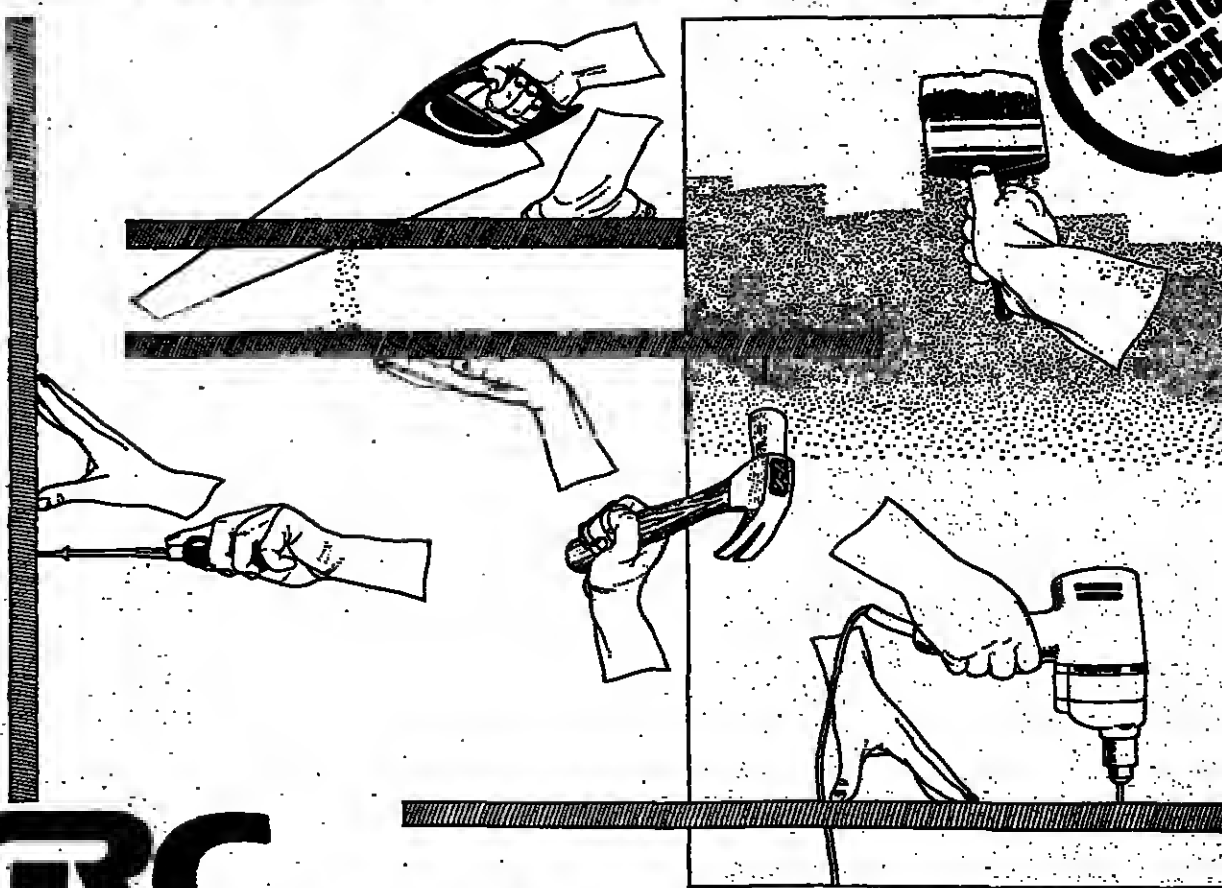
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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Arnold Kransdorff reports on the poor foreign language ability of UK executives

An easier way to communicate

EVELYN Johnson was rather proud of herself the other day. She queried her restaurant bill and got it reduced.

The reason was not that she had managed to overcome her natural discomfort about arguing with waiters in front of clients. It was that the waiter did not speak any English and that she had managed to converse with him entirely in his native language in Italy.

A similar thing happened to Brian Jagger while on a business trip to the Argentine. Buying a pair of shoes, he managed to explain exactly what he wanted in Spanish.

Johnson and Jagger are two very unusual people in British industry: they went to the trouble of learning a foreign language—in Johnson's case to keep an overseas contract and Jagger to advance his career.

They are among a minority of British executives who have any foreign language proficiency, a state of affairs often cited as an explanation for the UK's poor export record.

Up-to-date statistics are difficult to come by but a 1979 study by the Petro Trust, a body set up by The Royal Society of Arts to promote the UK's overseas trade, found that only 60 per cent of companies surveyed considered foreign language ability a considerable advantage for export salesmen.

Almost 60 per cent of export salesmen and about 40 per cent of sales managers could not speak a foreign language, it found. In addition, 90 per cent of respondents seldom or never corresponded in anything but English.

To get overseas business, British companies generally rely on interpreters, foreign agents or the ability—and willingness—of overseas customers to speak English. A few also depend on using their bilingual secretaries.

For Johnson, who owns and runs London Executive Aviation, a small, specialised air charter business, the decision to learn another language was made about two years ago when she signed a contract to develop Anglo-Tuscan air traffic through the new Tassinara Airport at Lucca, near Pisa.

She felt it would be "an extra to the meeting with an interpreter and later vowed to learn Italian.

She felt it would be an expression of our intent, and

would help us keep what could turn out to be a quite lucrative arrangement in the long run."

A 12-week crash course costing £1,100 at the language centre of Manchester Business School was her answer. She estimates that today, she knows about 500 Italian words. "Conversational, I can have a stab, although I still need a translator for complicated negotiations."

To Jagger, a 48-year-old executive with the Tootal textiles group, learning Spanish has been an investment for the future. Working as financial controller for the company's international division, he feels it is important for him to speak more than just English.

It was only when he joined Tootal in 1974 that languages started to become a relevant feature of his business life.

Then, when in 1981 Tootal decided to make what became an abortive investment in the Argentine Jagger was involved in evaluating the deal. Subsequently, when Tootal decided to pull out after the local economy started deteriorating, he spent 11 weeks in Buenos Aires doing the paperwork to extricate the company.

"That period gave me the incentive to learn Spanish, especially as Tootal has other interests in South America," he says.

Jagger also enrolled at Manchester Business School, choosing a £800 course over six months. "Now I can get by with everyday requirements in Spanish-speaking South American countries," says Jagger.

The established business schools are a growing source of language tuition for companies. Most specialise in European languages but some also offer tongues like Japanese and Chinese and, in the University of Aston's case, Russian.

Cranfield School of Management, for example, has had a language department for about seven years, specialising in French and German.

Manchester Business School is a relative newcomer to the executive market for language learning. In 1982 it handled around 90 businessmen but this year it is budgeting for fewer—only about 55—because of the recession.

Michael Woodhall, director of its language learning centre, says: "With a few notable



Evelyn Johnson (top) and Brian Jagger: getting on better overseas.



For beach think of pliers

MIKE Grunenberg confesses to having foreign languages—but claims to be able to teach them faster than anyone else.

A psychologist by profession, he has developed a teaching technique which Thomson Holidays, his first client, admits has cut the amount of time needed to learn a basic vocabulary and grammar by no less than 70 per cent.

Instead of the classical grammatical approach or the technique of structured listening and repetition used by many schools and language laboratories, Grunenberg uses a psychologically-based method with a heavy reliance on imagery.

His most remarkable aspect is that Grunenberg has designed it without an in-depth knowledge of any foreign language. Grunenberg admits to speaking only a smattering of German—he has a German-speaking mother and took the language for the Scottish equivalent of his "O" Levels some 25 years ago.

Grunenberg, who describes himself as a memory expert rather than a language expert, says: "I haven't had to be a linguist to draw up these courses, although language specialists are brought in to advise me on the linguistic correctness of pronunciation and grammar."

"Designing the courses is more an abstract exercise to fit a rather special formula. The beauty of the technique is that it can be applied to almost any language."

For want of a simple description, Grunenberg's technique incorporates a sophisticated mnemonic approach to language learning that he calls Linkword, the name he has given his new language school in London's Fulham Road. His aim is to teach executives how to communicate with foreign clients on an elementary social and business level.

Grunenberg says that his method involves linking foreign words to acoustically-similar English words which mainly give a visual rather than a verbal association.

He explains: "The Spanish for beach is playsa, pronounced play-ya. I tell students to imagine pliers scattered on a beach. The word is that it makes the recall of the Spanish word easier."



Mike Grunenberg

nounced play-ya. I tell students to imagine pliers scattered on a beach. The word is that it makes the recall of the Spanish word easier."

Peter Marsh, training manager for Thomson Holidays, is impressed enough with Grunenberg's technique to want to continue using Linkword in parallel with the company's existing in-house language training courses.

"We are very keen on languages here at Thomson and were initially very sceptical when we were first approached. However, we agreed to be guinea pigs and gave Grunenberg six managers who needed to learn Spanish."

"It took around 12 hours to teach them about 400 words and a basic grammar, a regime that would normally take about 40 hours using traditional techniques."

To test the system, Marsh brought in an independent consultant—now working for Berlitz, the language laboratory—who had previously helped Thomson develop its own in-house language courses. He reported that the six managers made no mistakes in finding the English equivalents for Spanish words, and telling the time. In translating from English to Spanish, they made four minor mistakes.

"At the end of the three-day course we were amazed, particularly at the 95 per cent recall and the high level of motivation of the managers concerned," says Marsh.

Grunenberg's language school has been set up in partnership with a former psychologist colleague, Dr Alan Beaton, and brother Tony, who owns an office cleaning company. A three-day course costs about £220.

When Nestlé had the right facts but wrong market

BY CARLA RAPOPORT



A lot of market research is done in order to convince others of one's own conviction. Most of what is being done is of very little use.

It is understood to have been spending a whopping \$3m a year on research. Even so, Nestlé has been significantly underperforming Stouffer on profits and sales growth.

Nestlé in the U.S. had 25 people trying to invent things, he says, and more people trying to find out if consumers liked them. It's much better to decide there's a market for some product, say something savoury, he says, and then have the best people, people who know food, make it for you.

"If you take a product out to people, you'll never find out if they like it or not," he says.

"A lot of market research is done in order to convince others of one's own conviction. Most of what is being done is of very little use," he says. Instead, the 56-year-old chief executive argues that the salesman's role should be enhanced.

"Product and marketing staff

units have succeeded in convincing management to place them one step above the salesmen in pay. This has to be changed." And he's not impressed with advanced degrees for any of these jobs. Academic qualifications shouldn't prevent a man from being successful, he says with a smile. But they often lead to frustration from the highly trained individual who starts in sales and expects to leap into management.

"I look into their eyes, not their files," he says of new applicants for jobs.

Just a few days ago, a preliminary report came on Maucher's management ideas arrived in the form of nicely increased profits for 1982. Although somewhat from Nestlé's oft-stated goal of a 5 per cent return on sales, net income increased by 14 per cent, pushing the net margin to 4 per cent from 3.5 per cent in 1981.

The improvement came from lower interest rates, the disposal of a number of loss-making activities and tighter control on costs across the board, says the company. Cutbacks on market research have been part of the tighter control on costs and the chief executive says that his vigilance in this area will continue.

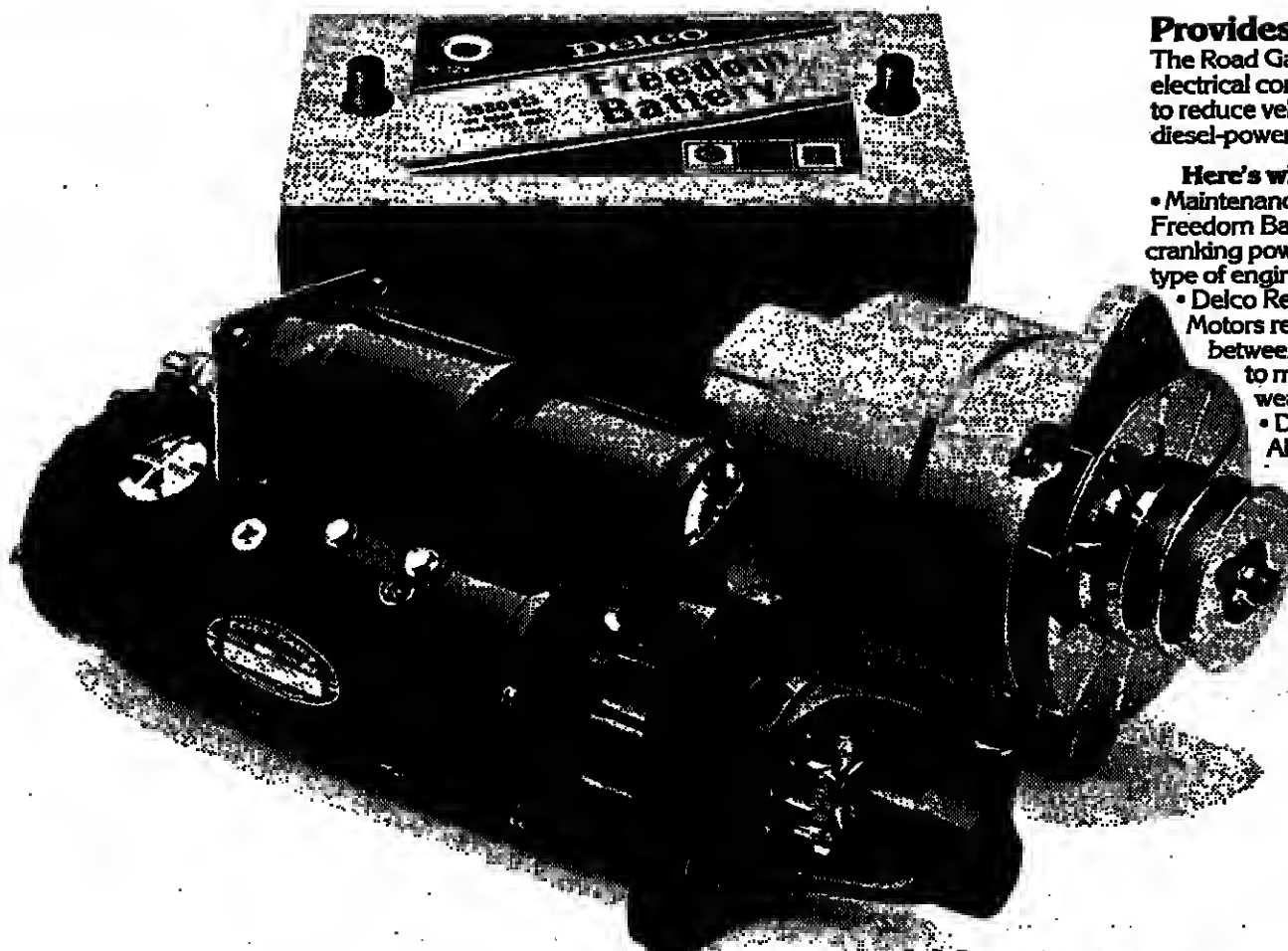
Even so, research is by no means a dirty word at Nestlé. The overall research budget in relation to sales has increased by two points in the last year. (With characteristic Swiss secrecy, Maucher won't say what the percentage is, but Nestlé's turnover of Sfr12.7bn, means that one percentage point of sales translates into Sfr127m.)

The recipients of this increase are Nestlé's basic research into nutrition and food science and the company's product development research. The latter, Maucher emphasises, is aimed at improving the quality of existing products and extending their possible uses.

And these products he aims to sell. "We need more people who can sell. I do not mind if they are intelligent. I also don't mind if they understand normal business, sometimes even without market research."

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THE ARTS

Modern Jazz Quartet/Dominion

Kevin Henriques

Attending the Saturday concert by the Modern Jazz Quartet was not so much a case of *déjà vu* as *déjà entendu*. For a major portion of the two-hour programme comprised compositions of the group, formed in 1952, on its first tour here in 1957 and on subsequent visits until it disbanded in 1974.

New together again—for a variety of reasons—on a basis which will allow each member his own musical inclinations, the quartet seems resigned, and probably obligated, to retrace the deeply rutted path of its past successes.

Opening with the fragrant, fragile "Under the Jasmine Tree," the quartet sped on to a couple of items from the film "One Never Knows" including inevitably "The Golden Striker," and to the equally familiar "Willow weep for me." Only an unaccompanied and plaintive "Natura Morte" by Milt Jackson struck a welcome note of deviation from the mostly repetitive until the first half's concluding set-piece, "Satcha's March," a feature for drums, double bass and, mercifully, not prolonged.

The second half did produce some new compositions by the MJQ's leader and guiding light,

John Lewis including "That Slavic Smile" and a bizarre piece of trivia based on English dance rhythms, "Hornpipe for the Queen." Lewis's own solo feature was another golden oldie from the MJQ's vaults, "Milano," in which his spare, restricted, almost one-handed, style was fully exhibited.

Bassist Percy Heath, clearly the most animated of the four quietly playing musicians, had an energetic work-out on his own piece, "The Watergate Blues" and, within the restrictions of the MJQ's formula, produced the most riveting playing of the concert.

Needless to say the performance of the four musicians were as impeccable as ever. The refined music, with its counter-melodies, phrasing dynamics, shades of classical music and fugue style, does have its attractions. The MJQ's music remains highly organized, logical and above all restrained. It is all very pretty and all very clever. But, as in the quartet's golden days, the doubt surfaces in the hearts and minds of many jazz-lovers — is it really jazz? The debate will continue to rage and, for myself, I regard the MJQ's music as jazz without balls.

Obituary/Earl 'Fatha' Hines

Kevin Henriques

Earl "Fatha" Hines, who has died aged 77, was one of the few remaining unblemished links with the early days of jazz. Additionally he was probably the most influential pianist jazz has seen and, unlike many figures in the music, remained to the end of his playing life.

Earl Kenneth Hines was born in Dugess, part of Pittsburgh, on December 28, 1905 and his formative years pointed towards a career in classical music. But by his mid-teens he was playing a much different style—in clubs. By 1924 he was working in Chicago where his career really began blossoming as he worked with the city's great Louis Armstrong and in 1928 the two made the famous Hot Five recordings which established Hines as the leading jazz pianist of the time.

Following these historic recordings Hines began a period spanning over 10 years in which he led a band at the Grand Terrace Ballroom in Chicago (it was while there that a rival announcer, almost by accident, gave him the sobriquet "Fatha"). In the early 1940s, after breaking up his band, he re-formed and his new line-up reflected the momentous changes taking place in jazz at that time. Jazz modernists such as Charlie Parker, Dizzy Gillespie, Wardell Gray and Billy Eckstine passed through his ranks. Hines finally cut loose from big bands in the early 1940s after almost two decades as a leader.

His activities in the next 15 years included almost four with the Louis Armstrong All-Stars, a long residency in San Francisco and his first visit to Britain in 1957. A relatively

quiet spell during which he worked mainly on the West Coast and also opened a short-lived night club in Oakland, California, which had become his home town, ended in 1964 when he played some triumphal New York concert dates. From then on, with tours to Europe, Russia and Japan among the highlights, Earl Hines continually showed that years had not dimmed the brilliance of his piano conception.

As well as touring this country as featured guest with local bands he did several recordings with his own small group at Ronnie Scott's Club in London where, in his final appearances, his long involvement with show business, presentation even increasingly manifest itself. But whatever the circumstances, whatever the circumstances, Hines proved to the end that he remained a complete keyboard master. Though he made a specialty of an exceptionally long draw-out style, his tremolo—his style was never dented. He had a firm, two-handed attack.

His huge span enabled him to cover a tenth. His way of playing combined broken chords, rhythmic verve, octaves and trumpet-like melodic ideas together produced a truly individual style.

His unpredictable changes of pace and direction were truly mouth-opening and only the finest of bassists and drummers could accompany him. His direct influence on pianists remained until the 1940s when along came such innovators as Bud Powell and the "Thelonious Monk." Yet even today Hines is the most frequently named influence by pianists all over the world.

Barclays Bank to sponsor GTO

For the first time in Glyndebourne Touring Opera's 18 years of existence, a single major sponsor, Barclays Bank, has undertaken to sponsor the whole of its tour.

This support is pledged for a two-year period, covering the 1983 and 1984 tours.

The association between Barclays Bank and GTO through

occasional support in past years has now taken on a new dimension and will substantially help to meet GTO's anticipated deficit, which still remains after Arts Council subsidy and box office revenue.

Tom Stoppard is making a new English translation of Prokofiev's *L'Amour des Trois Oranges* specifically for the performances by GTO this autumn.

Architecture

Colin Amery

The threatened art of conservation



Near Christ Church, Spitalfields, on the edge of the City: another Georgian house bites the dust

of historic buildings if the cost of repairs could be set against income-tax liability. Mrs Jenkins is also keen to see the introduction of tax incentives for companies that may have a valuable building that is empty and need conversion.

Whether this could apply to British Rail, now the largest single owner of listed structures (644 in 1982), must depend on the speed with which railway buildings are being demolished. British Rail carries a huge burden but it is significant that the Council's report considers that a little more money spent on preventative maintenance may save much larger bills later in the day.

Churches in use now receive grants from the Government despite the continued existence of the draconian Ecclesiastical Exemption from listed buildings controls. From 1977 to the end of March 1982 over 50m has been granted to churches. The grant now only pays for 40 per cent of the cost of the repair, but it has been a valuable stimulus to the fund-raising efforts of congregations.

One outstanding problem remains — many churches are still declared redundant and, during the period needed to see whether or not a future new use can be found for them, are left unprotected and subject to vandalism. Furniture and fittings

When the Wind Blows/Whitehall

Michael Coveney

and virulent anti-GND propaganda. So, even before this remarkable two-hour evening had begun, we were forcibly reminded that time is running out. After a brief suburban idyll — sunshine, daffodils, the milk delivery and "Spread, a little happiness" on the wireless — Jim starts unscrewing the doors

and building his "Inner Core or Refuge" as instructed by a comic pamphlet. The missiles will strike in three minutes and Hilda is still worried about bringing in the washing.

In truth, Mr Briggs's balloon captions are a little meandering and repetitious on the stage, but David Neilson's production and the performances of Patricia



Patricia Routledge and Ken Jones

Domus/Purcell Room

Andrew Clements

Domus has at least one thing that separates them from the pack of young chamber ensembles queuing for dates in the Wigmore Hall and the Purcell Room: they travel around with their own auditorium, a geodesic dome that they put up themselves, seating 200. They have successfully installed it for seasons at the Cheltenham Festival and several London parks, and are due next month at the Bath Festival, but their concert on Friday took place in the more austere surroundings of the Purcell Room.

The group, its core consisting of a piano quartet, was formed four years ago at the International Musicians Seminar at Prussia Cove in Cornwall. They play a wide variety of music, and not the least success of their Purcell Room programme was its relaxed atmosphere. The informality, a lack of ceremony that belied the high standard of the music-making. The mixture of Mozart (the B flat piano trio K502), Faure (the C minor piano quartet) with Jean Francaix's early trio and a realisation of a section of Stockhausen's *Tierkreis*, was nicely judged, and presented with charm and imagination. At a specifically high level, the instrumental blend is attractive, without any attempt at homogeneity. The violinist Krysta Osostowicz has a slightly aggressive tone, married to impeccable intonation, while her string partners

are less forthcoming. Indeed Felix Wurman's cello line was sometimes insufficiently forceful in the effect of unsatisfying lightness in tuttis. Susan Tomes appeared as a pianist in the 1982 Purcell Room series; it was around her musically that much of this programme pivoted, generous of phrasing and warm of tone, a fine foil for the violinist's acidity.

Francaix's trio is a rarity, written when the composer was 19. The neoclassicisms had already been absorbed by then, and turned upon themselves to considerable effect; the music is genuinely witty and was dispatched by Domus with excellent comic timing, but appreciation was tempered by the self-conscious *enfant terrible* who wrote it never did grow into any serious maturity. The realisation of Tierkreis actually succeeded in something that one had previously thought impossible, making an interesting and sustained piece out of one of Stockhausen's thinnest inspirations. Domus chose four melodies corresponding to their own hirsutings and wove them into a continuous structure with useful and varied harmonisations, imaginatively scored and never (save perhaps marginally in the finale, a version of "Scorpio") stretching the material too far. A group that one would like to hear again, more appropriately in their own unique environment.

Antony and Cleopatra/Young Vic

Michael Coveney

There are now two comparatively small London theatres offering Shakespeare's great historical tragedy. The eager hordes of A-level students. All things considered, I have no hesitation in recommending the Young Vic's version in preference to that of the RSC at the Pit (all performances are sold out there, anyway).

Helen Mirren as the winning of Cleopatra, but Judy Parfitt's reading at the Young Vic is lucidly spoken, intelligent and even moving in its own quiet way. She is skittish after the European manner of her Madame Rameau a few years back, but she is a handsome, lithe and elegant woman, blessed with startled, frightened eyes and a shock of auburn curls that put me in mind of a pre-Raphaelite Theda Bara.

Whereas Michael Gambon at the RSC is a grizzled warrior to the manner born, Keith Baxter, an actor who is accepting middle age with effective good grace after years of dubious blond juvenility, presents the role in a much more variegated blend of colours.

The exotic swirl of the piece is excellently maintained in Keith Baxter's production, and he has the advantage over Adrian Noble, the director in the Pit, of the Young Vic's deceptive spaciousness, its permanent upper levels and its choice of approach routes to the stage area.

Mr Hack's designer, Vortek, has provided a simple yet stunning design emblem to encompass the world of the play. This is a huge decapitated martial figure (not unlike John Gutter's version of Michelangelo's David in the National's *Lorenzaccio*) whose golden, spangled cloak of war spills down from above to provide a floor cloth. I was less happy with the winching of the Young Vic cast in, on the way, stronger than at the Pit. Barry Stanton's massive Enobarbus gives the RSC's Bob Peck a good chase to the winning tune. Brian Deacon is a most expressive and even attractive Octavius, adding real emotional force in his disapproving appointment at his sister's arranged marriage with Antony. This is an area of the play that suffers slightly from Emma Piper's doubling of Octavius and Cleopatra, and he invests the latter role with a lot of flirtatious detail, dying almost on the kiss of a gasler.

Jeffrey Kisoorn doubles as an exotic Erus and a leather-clad Pompey, while Stephen Lewis's Lepidus is a very funny, shadowy third party in the triumvirate. The whole show has a movement and energy missing at the RSC and should be of great benefit to school parties.

Buxton Festival plans announced

Boccaccio's "Decameron" provides the theme for this year's Buxton Festival, which runs from July 23 to August 7. Both operas in the festival, *Le Colombe* by Charles Cuvillier and *Griseida* by Antonio Vivaldi, are taken from stories in "The Decameron." This will be the first time a Vivaldi opera has been professionally staged in Britain.

Other highlights of the festival include the world premiere of a children's opera by Herbert Chappell, based on the story "James and the Giant Peach," by Ronald Dahl.

Leland Chen, the recent winner of the Yehudi Menuhin International Violin Competition, will feature as the soloist at a concert by Manchester Camerata on the last day of the festival.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

April 22-28

Music

ZURICH

Tonhalle (201150): Christina Grossin, soprano, Hans-Rudolf Matbach, guitar, Erwin Nowak, violin, Couperin, Lorin, Olin, Mendelsohn and others (Mon) Tonhalle Orchestra conducted by Christoph Eschenbach. Schoenberg and Brahms (Tue); Tonhalle Orchestra, Mozart and Bruckner (Wed).

LONDON

Monteverdi Choir and English Baroque Soloists conducted by John Eliot Gardiner. Handel's *Israel in Egypt*. Barbican Hall (638891). (Tue).

London Philharmonic Orchestra and Choir conducted by Jessa Lopez-Cobos with soloists including Margaret Price, soprano. Verdi Requiem. Royal Festival Hall (Tue). (638191).

Chingirian String Quartet with Ian Jewel, viola and Steven Isserlis. Brahms sextets. Queen Elizabeth Hall (228191). (Tue).

BBC Symphony Orchestra conducted by Kurt Sanderling with John Lill, piano. Lyndov, Prokofiev and Tchaikovsky. Royal Festival Hall (Wed).

Alfred Brendel, piano. Beethoven sonatas. Queen Elizabeth Hall (Wed).

City of London Sinfonia with Richard Hickox. Singers conducted by Richard Hickox. Bach. Barbican Hall (Wed).

Royal Philharmonic Orchestra conducted by Yehudi Menuhin with Ian Partridge, tenor and Barry Tucker, bass. Verdi Requiem. Royal Festival Hall (Thu).



Verdi Requiem, at the Royal Festival Hall, London

NEW YORK

New York Philharmonic, Zubin Mehta conducting. Jessa Norman soprano, John Cheek-bass, Hans Rottler, tenor and the Westminster Choir. Schoenberg (Tue); Zubin Mehta conducting Horacio Gutierrez piano. Schubert, Schoenberg, Debussy, Chopin (Thu). Avery Fisher Hall (674264).

San Francisco Symphony Orchestra. Edo de Waart conducting. Alicia de Larrocha piano. Haydn, Richter. Rachmaninoff (Wed). Mozart,

WASHINGTON

London Symphony Orchestra: Claudio Abbado conducting. Webern, Elgar, Mahler (Thu). Kennedy Hall, Kennedy Center (263376).

CHICAGO

Chicago Symphony: Raymond Leppard conducting. Jan Deganter, mezzo soprano, Britten, Maxwell Davies, Bar, Elgar (Thu). Orchestra Hall (458122).

PARIS

Novel Orchestre Philharmonique conducted by Henri Fargue. Michael Haydn, Mozart (Tue). Salle Gaveaux (263376).

VIENNA

Musikverein (58110): Alfred Brendel, piano. Beethoven Sonatas (Mon); Beaux Arts Trio, Haydn, Schumann, Brahms (Tue and Wed); Brahms Liebeslieder. Soloists, Edith Mathis, Brigitte Fassbinder, Peter Schreier. Walker Berry, piano (Thu).

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Outlook for Williamsburg

FEW top-level meetings have been anticipated with less excitement than the forthcoming economic summit at Williamsburg. President Reagan has been determined from the start that this should be an intimate, informal meeting of minds, aimed at understanding rather than decisions and communications. This approach is frustrating for the civil servants concerned who have been able to muster little in the way of pre-negotiation, and does not seem to appeal to the orderly-minded French and Germans. It could, however, prove fruitful on the view, which we strongly support, that a greater consensus on objectives is required before any details can even be sketched.

The meeting really will be intimate: only the seven leaders and the President of the European Commission will be in the room, with interpreters out of sight in a studio, and no record-takers. The shadowy agenda for this prolonged conversation is limited only to broad headings, but does seem to have been changing in a helpful way in recent weeks.

The Americans no longer seem bent on a confrontation over East-West trade, which will presumably be left to the normal diplomatic discourses. The French are resigned to the fact that the time is not ripe for their proposal to reimpose a formal exchange rate regime on the world, and some of the highly individual proposals which Mr Nakson had threatened to introduce have reportedly been heavily diluted. There is thus a much greater chance that the talks will be devoted to topics on which there is some hope of a consensus.

Stability

There are two headings here of over-riding importance: currency stability coupled with policy convergence, and trade liberalisation. The first topic is clearly very close to the heart of our own Chancellor, Sir Geoffrey Howe, though it is not clear how far the Prime Minister shares this preoccupation. The good news is that the Americans are now much readier than before to give priority to stability exchange rates, and may acknowledge the need to trim domestic policies to this end.

Civil Service recruitment

THE CIVIL SERVICE is worried by last week's report by Sir Alec Atkinson, a former top civil servant, that too few people of the right kind are applying for its so-called fast stream posts which offer fast promotion to senior rank.

Sir Alec makes clear that the quality wanted extends beyond success in academic examinations. While intellectual competence is one of the attributes required, it need not be of the order associated with the highest classes of honours degree. What the report terms personal and managerial qualities and motivation are equally important. In the words of Mr Dennis Trevelyan, head of the Civil Service Commission responsible for recruitment: "Civil servants now have to come out of their ivory towers to defend themselves before parliamentary select committees and even—God protect them!—to give press conferences."

The immediate cause of the shortage is the business and other organisations are competing successfully for the same young people. The report therefore proposes improvements such as less longwinded selection procedures, stronger links with polytechnics as well as universities to make the service more attractive.

Although its relative position in the market may be enhanced by such measures, they scarcely address a fundamental question. Why is an education system costing taxpayers almost £14bn a year failing to produce enough people with the required combination of intellectual adequacy, keenness, organising skill and personality to go round?

A plausible answer is that the increase in numbers obtaining examination certificates of one sort or another has been achieved by education at the cost of neglecting the development of other than academic aptitudes.

Stress

For the more scholarly pupils, especially, stress on studying as individuals to pass exams often excludes their playing team games which are a means of promoting another ability extended by the report—that of working with others in a disciplined way towards a collective goal. The same stress encourages early specialisation in a particular branch of

This is a great stride forward from the position last year, when the Americans grudgingly agreed to a technical study of currency intervention for smoothing purposes, and still further from the year before when they confidently believed that the market would deliver realistic and stable rates unaided, given adequate monetary control.

The fact is that exchange rates will be neither stable nor realistic unless adjustments are made—and sometimes very painful ones—to achieve an appropriate balance of fiscal and monetary policies. The Europeans at the summit have learned this the hard way. The realising of monetary conditions in the wider trading world was established at the last summit at Versailles, in the surveillance committee of the five countries whose currencies make up the SDR under IMF chairmanship. Little has come of this so far, because the political commitment was lacking. One result of Williamsburg may be that this surveillance will become a serious matter and a real influence on policy.

Complacent

It would be foolish to expect any quick results, though. It is always harder to agree on the details of burden-sharing than on the principle. Furthermore, the U.S. Administration, whose fiscal deficit is generally regarded outside the U.S. as the major block on the road to stability and lower interest rates, is feeling rather complacent at the moment. It believes that it has at last started a steady recovery which will in due course reduce the deficit, increase the earnings of debtor countries, and so reduce interest rates. Those more sceptical can only wait and see.

Meanwhile, the continued U.S. commitment to free trade, despite an over-valued dollar, is admirable and welcome, and deserves support. An initiative to arrest the present drift to subsidy and protection, especially in favour of developing countries, would be a constructive agreement which could emerge from Williamsburg, and is at least an outside possibility. That would be well worth the journey.

TO THE amazement of his European counterparts, Mr Richard Perle, the U.S. Assistant Secretary of Defence for international security policy, arrived in Europe not long ago with a Soviet sonar device packed in his suitcase. The device incorporated advanced Western microprocessor technology.

Mr Perle, whom the U.S. Press long ago dubbed the Prince of Darkness, is a man West European officials—and companies—love to hate. But he was, and is, determined to prove his contention that there is a "virtual haemorrhage of strategic technology" much of it from Europe, to the Soviet bloc.

According to Mr Perle, the Soviet Union has narrowed its technological gap with the West from 10 to two years in several critical areas, thanks to the acquisition of certain key technologies from the West. The sonar device, he wanted no time in pointing out wherever he went, may well be the forerunner of the one that will pick up the so far undetectable new American Trident submarine.

Mr Perle's visit, and the European reaction to it, tellingly illustrates the deep frustration the U.S. and its European allies feel with each other these days as they try to conduct their relations with the Soviet bloc. In its 34 year existence, the Nato alliance has rarely been free of strain. But rarely has it had to cope with so many divisive issues at once.

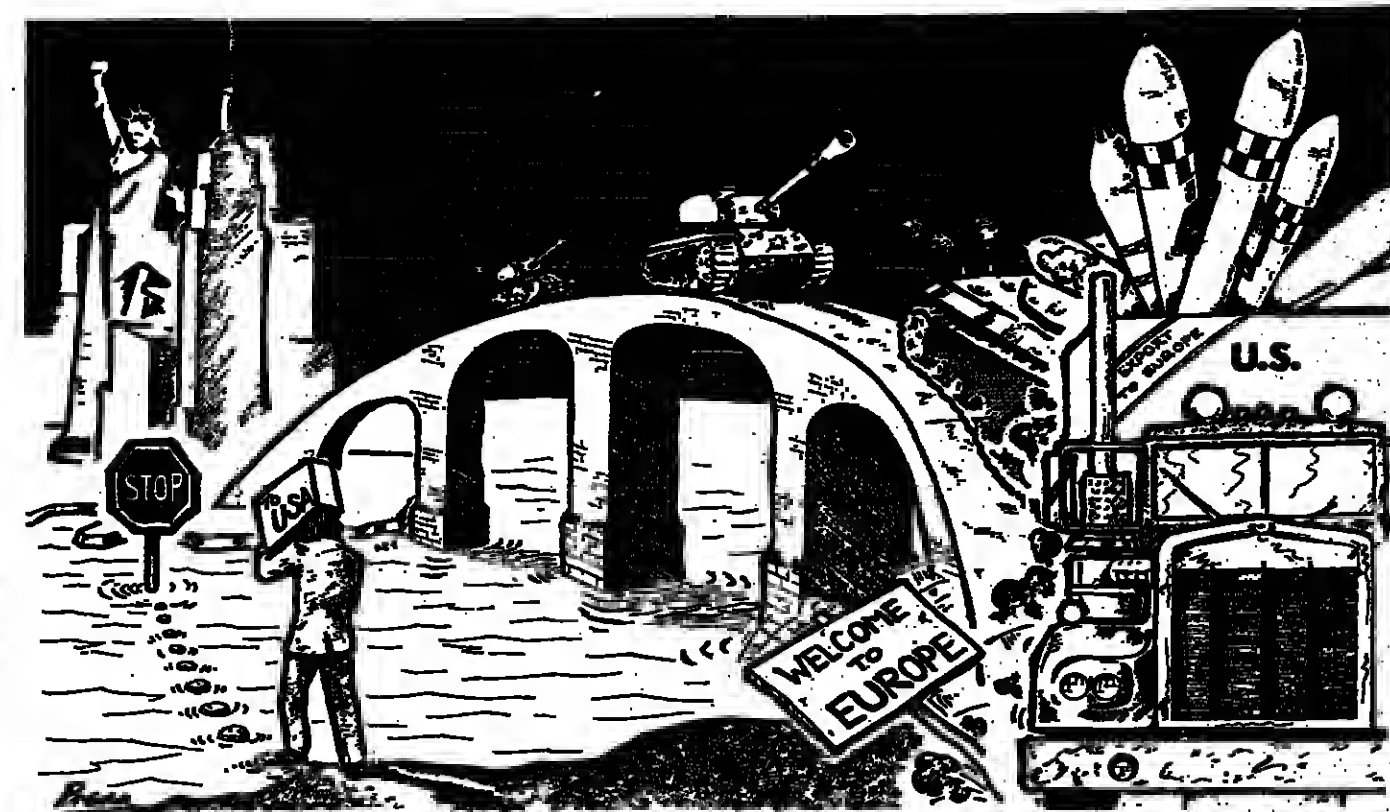
Quite apart from the aftermath of Afghanistan, the differences over Poland, the row over the Soviet pipeline sanctions, and the all-pervading issue of nuclear missiles, there are now three other specific areas of conflict. They alarm businessmen, soldiers and diplomats, as well as politicians and peace movements.

They are all expected to get a thorough airing at a top level conference on industrial collaboration within Nato which opens in Brussels today. The first, the most visible and most predictable, is the unequal trade between the U.S. and Europe in defence equipment, exacerbated by what a British minister recently categorised as "rampant protectionism" in the U.S. Congress.

The second problem, and possibly the one which most immediately threatens alliance cohesion, is growing U.S. concern that western technology is being needlessly and dangerously transferred to the countries of the Warsaw Pact.

Finally, there is increasing concern in Europe that new U.S. battle tactics involving a new generation of high-tech weapons, will not only push Europe's defence trade with the U.S. even further into deficit but could also undermine long accepted military doctrines within Nato.

At the heart of the problem over what is dubbed the "two-way street" in defence trade is the long-standing deficit between Europe and the U.S. in



defence equipment. The U.S. habitually sells more to Europe than it buys from it. Attempts to correct the imbalance through government intervention—notably the signature of Memorandums of Understanding in the mid-1970s—have had only a marginal effect.

Europe's growing irritation at the current state of affairs, where the U.S. on average sells seven times as much to its European allies as it imports from them—is summed up in a cartoon on this page based on one originally produced for a Dutch company's house magazine.

Many European companies feel this frustration although their executives are often chary of making complaints public. Virtually every major European defence-oriented company—from British Aerospace to Marconi Avionics in Britain to Messerschmitt-Bölkow Blohm (MBB) or M.B.A.N. in West Germany—has a substantial business with the U.S. directly or in partnership with U.S. companies.

Initiatives to stem the technology 'haemorrhage'

BAe, for example, has British industry's only major whole range of high-tech aircraft for the Hawk pilot trainer, which could be worth some £600m ultimately and for the AV8B version of the Harrier vertical take-off aircraft.

Other smaller companies often have a proportionately larger stake in the U.S. market. A number of actual or potential contracts are currently in jeopardy such as that with

ARMS SALES AND THE U.S.

Europe's patience wears thin

By Bridget Bloom, Defence Correspondent

Fairly Allday Marine who won a \$50m contract to supply combat support boats to the U.S. Army but could now be prevented from even competing in the \$50m follow-on contract.

Mr Geoffrey Fattis, Britain's minister responsible for defence procurement, has recently become a spokesman for European frustration—even though Britain manages to sell comparatively more to the U.S. than other European countries.

Full official figures are not published, but Mr Fattis estimates that, partly as a result of the Defence Ministry's sustained campaign to make the 1975 Memorandum work, the balance is now only 2:1 in the U.S. favour—on quite a surprisingly small amount, for while total UK exports to the U.S. last year were some £7.5bn and imports amounted to £6.5bn, defence exports last year were said to be about £1.5bn and imports (including those for Britain's nuclear deterrent) some £300m-£350m, plus \$80m-£100m of special imports for the Falklands war. (The 2:1 ratio could worsen for Britain when Trident missiles purchases rise.)

Mr Fattis lists protectionist measures by Congress and "restrictionism" by the U.S. Administration as responsible for serious obstacles to defence trade.

He cites as the grossest current British example the Martin-Baker Company of Devon, whose contracts to supply ejector seats for the U.S. Navy's new F18A aircraft (potentially worth \$90m-£150m over 15 years) was won in open competition—only to be overturned by Congress who ordered the Navy to produce plans to use U.S.-built seats.

The MOD lists some half dozen other contracts similarly threatened—and half a dozen

other legislative measures, which some industrialists claim could effectively close the U.S. market to foreign component manufacturers.

Some defence officials in Washington and Europe believe that companies and politicians alike have exaggerated the effects of congressional legislation. But others argue that what has so far been a difficult but containable problem is now entering a distinctly new and more dangerous phase.

They charge that the Reagan Administration, in its drive to tighten the transfer of defence-related technology to the Warsaw Pact, is also further undermining the two-way street. In Washington, Pentagon officials deny that their policy is designed to have—or will have—an adverse effect on Europe or alliance co-operation.

It is a policy which is pursued with enthusiasm by a dedicated Pentagon team. Mr Perle is credited with instigating what a British official termed a "barrage of initiatives" to stem the technology "haemorrhage". U.S. export controls have been toughened. A new customs body, known as Exodis, has been given a \$25m budget. It halted 1100 shipments worth \$1m in its first year, Mr Perle says.

The international focus of Mr Perle's efforts has been CoCom—the Coordinating Committee for Multilateral Export Controls, a shadowy post-war Paris-based body of officials which co-ordinates the Western embargo on technological exports to the Warsaw Pact.

Mr Perle wants CoCom greatly strengthened: currently it has a budget of a mere \$500,000 and works out of offices "next to the plumbing" in the basement of the U.S. Paris embassy, with only a handful of staff.

At U.S. instigation CoCom has already held what the Pentagon says is the first really high-level meeting in 25 years. It holds another next week. On its controversial agenda will be U.S. proposals to treble the budget, greatly extend the lists of embargoed exports and to establish a military sub-committee to monitor civilian tech-

Fears that the two-way street will be one-way

nologies for their possible military application. Only the U.S. supports this. Earlier this month, there were dark hints in the Pentagon that President Reagan will raise the subject at the Williamsburg summit.

European governments are chary of these initiatives. Few disagree in principle with the U.S. proposition that the Soviet military build-up has been aided by technology transfer from the West and that controls could be more effective. But governments fear that Washington would use the controls it seeks as a blunderbuss, harming legitimate trade and undermining diplomatic relations with the Warsaw Pact.

Paradoxically, officials and businessmen are also worried about the proposed U.S. measures, which are meant to enhance Nato strength, could actually undermine it by toughening the transfer of technology within the Alliance. European officials believe that the Pentagon is seriously scrutinising agreements between U.S. and European companies in order to tighten the rules on technology transfer.

They allege that key data has

been withheld on certain collaborative ventures between U.S. and European defence industries, because of these tightening rules. They also maintain that European-owned companies in the U.S. are deprived of contracts involving equipment on the classified list.

British officials cite two examples where major British companies—Marconi Space and Defence Systems and Thorn-EMI—have bought U.S. defence contracting companies to increase their competitive standing in the U.S. only to find that the companies' security classifications have been lowered, narrowing their range of hirable contracts.

Some of these detailed criticisms are refuted by Pentagon officials, and it is argued with justification that tensions over the two-way street could diminish with full U.S. economic recovery. Pentagon officials note that the Administration has already urged Congress to ease the restrictions on the Martin Baker company, for example.

But the underlying tensions arising from these unresolved problems, especially when set against the unease in the transatlantic relationship as a whole, are palpable. They are dangerously close to being reinforced by a third, also so far largely unpublished, issue, this time related to the military uses of new or emerging technology.

The nub of the "ET" issue is that new weapons are on the horizon which could make it very much easier for Nato to withstand an attack by the much larger conventional forces of the Warsaw Pact without resorting almost immediately to the use of nuclear weapons.

It is clear, from interviews in the Pentagon, that there are still divisions within the U.S. on how far and how fast development of these new weapons, some approaching Star Wars complexity, should go.

But there is no doubt that a broad spectrum of U.S. Governments and military opinion—from Mr Weinberger, the Chief of Staff, and General Rogers, the Secretary of Defense, to the more moderate voices of the aid of the new technologies. For its part, Europe's Nato is worried—not so much because its leaders do not see sense in employing new technologies, if these will genuinely help to resolve some of the military dilemmas facing the alliance, but principally because they fear that the U.S. may try to steamroller its new ideas through before their military applicability and political implications for Europe for arms control or for the doctrine of the forward defence of West Germany have been thoroughly examined.

European defence industries have their worries too—for while Europe is, for example, developing some of the technologies for guided missiles, they fear U.S. predominance in the field could result in the tentative two-way street becoming irrevocably one-way.

Men & Matters

Equities man

A merchant banker who is also a qualified accountant, who has seen the funds under his management during the past five years grow from £1m to more than £40m, and who can also speak a few words of Chinese, would seem to have that little extra which is sought when top jobs are being handed round.

The man is Peter Gray, aged 46. His record has secured him the managing directorship of Touche Renton, the fast-growing fund management group. He will take over later this year when George Hague retires.

After Marlborough, Trinity College, Cambridge, the School of Oriental and African Studies, London, and National Securities, his career has been in the Foreign Office (briefly), merchant bank S. G. Warburg, accountants Coopers and Lybrand, and merchant bank Samuel Montagu.

Since 1977 he has been working at the Crown Agents as head of the investment division. During his time with the Agents the funds under management rose more than fourfold, and he says "They are now by far the biggest managers of international bond portfolios in Britain."

Gray's arrival at Paddle Dock, Touche Renton's new HQ, has been nipping in here every Friday and picking up about £80 in wages by using doctored 10p coins to obtain change.

Now Parkin might find himself earning an unexpected bonus if a manufacturer takes up the idea to make it under licence.

Gray sees himself as "by instinct an equities man." At the Crown Agents he was responsible for about £800m worth of equities. At Touche Renton his equities portfolio will be worth nearly twice as much.

No change

We've all heard of the individual caught with his hand in the till.

An enterprising amusement arcade owner, Gary Parkin of Jersey, is now catching the cheats in his slot machines.

What he has done is invent a device, with the technical assistance of his staff, which responds to a dodd coin in a slot machine by locking all the slots. The attendants therefore know that the last user is the guilty party.

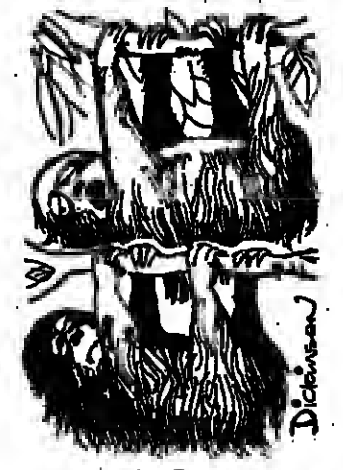
Apparently the problem of 10p pieces being doctored to perform as 50p pieces in slot machines has been reaching epidemic proportions. One holiday camp operator has been forced to put the change-giving mechanism on some 15,000 of its amusement machines out of action while pondering a solution.

Parkin, who has fitted many of his 900 machines with the gadget, says, "Someone was nipping in here every Friday and picking up about £80 in wages by using doctored 10p coins to obtain change."

Now Parkin might find himself earning an unexpected bonus if a manufacturer takes up the idea to make it under licence.

Village life

The latest contribution to getting-away-from-it-all is a complete village to be built in the Lake District and owned by "townies", and regular visitors from Europe and America, on a time-sharing basis.



"I'm glad the Lemmings are getting the blame for once instead of us Sloths."

property-owning Lakeland village—at a price. It is likely that ownership of a typical cottage for one week a year on a lease of 80 years will set you back between £3,000 and £7,000 depending upon the time of the year chosen.

The chance to time-share some country roots is being given by the Kemming Motor Group and Robert M. Douglas Holdings, the builders, who intend to spend £20m over five years in partnership creating Lakeland Village just a mile or so south of Lake Windermere.

The site is the old Dolly Blue works at Backbarrow—which catches the eye of passing motorists—because the blue dye used in the process at the old mill has coloured the stonework in spectacular fashion.

New cottages are to be built in Lakeland stone and slate. The mill itself, purchased from Reckitt and Colman, will become a hotel and conference centre. American Robert Rose, managing director of Atlantic Time Ownership has been called in to act as consultant on the planning of the village and its marketing, using the time-shar-

ing way. He is already running a similar time-shared village in Marbella called Atlantic's Marbella.

Local opinion is running strongly in favour of Lakeland Village, he tells me, because it will provide at least 150 new permanent jobs and will at the same time remove an unused industrial eyesore.

If you plan to become an instant Lakeland I understand life need not be too onerous. There will be a glass-enclosed bridge to protect these modern rustics from the elements as they cross a road from the hotel to a health centre.

And if village life becomes just a little slow it will be possible to while away the time watching real workers at work. Such activities as carpentry, latherworking, baking, and candle-making will be established in the village as commercial enterprises.

Dead pan

A touch of Jewish humour is lightening the long running political, economic, and industrial, three-pronged argument in Israel whether to channel seawater to the Dead Sea, the lowest place on earth.

The idea is to make the desert bloom and generate a handsome quantity of electricity.

The first scheme to link the Mediterranean with the Dead Sea was known as Mad-Dead.

Now a second idea to make the link with the Red Sea instead is being known as—Better Red than Mad.

Recurring figure

"There's only one man in a million who really understands what's wrong with the economy, old boy."

"I agree—and isn't it amazing how often one meets him?"

Observer

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INDIA'S FEDERAL STRUCTURE

The cracks are widening

By K. K. Sharma, recently in Amritsar



Where the strains show in India's federal set-up

SURROUNDED by followers in blue turbans and white robes, with religious "karpas" (daggers) slung over their shoulders, a 55-year-old Sikh has languidly on his wooden bed in a small dark room in the famous golden temple in Amritsar.

Jarnail Singh Bhindranwala sports a flowing black beard and stares through piercing black eyes set in a gaunt face. "Anyone who accepts anything less than our demands will be punished by the faith — they will be done away with," he says.

The faithful who surround him nod in agreement with their militant leader. Bhindranwala has not left the temple for more than a year. Implicated in murders, raids on armories and armed attacks, the Sikh leader faces immediate arrest if he stirs out of his sanctuary in the holy city where gun-battles between Sikhs and para-military forces have already heightened tensions.

Bhindranwala is an extremist. More moderate Sikh leaders are distressed and puzzled at the sudden violent turn. The three-year agitation for religious and political rights has taken. Until two years ago, the occasional hijacking of Indian Airlines aircraft and Sikh-Hindu clashes were dismissed as merely the action of cranks.

More than any other factor, language has proved divisive

Now the Sikh protest is an organised, militant and bloody affair, turning the strategically placed state of the Punjab, which borders Pakistan and is the granary of India, into yet another threat to the country's unity.

The growing strains on the country's federal set-up manifest themselves in armed insurrection, as in the Punjab; in communal violence, as in India's remote north-east state of Nagaland; and in the growth of regional parties which, in elections in two southern states — Andhra Pradesh and Karnataka — heavily defeated the ruling Congress (I) Party recently.

At the weekend, extremists among the Sikh leaders in Amritsar blocked moves to re-

sume talks between the Indian Government and the Akali Party — the political arm of the Sikhs — to discuss more autonomy for the Punjab.

The extremists, some of whom seek the creation of a "Khalistan" — homeland of the Sikhs — turned down a proposal from Mrs Indira Gandhi, the Indian Prime Minister, that Mr Harbans Singh Longowal, the Akali president, should visit New Delhi for the talks. Instead, they insisted that Mrs Gandhi should come to Amritsar.

India's federal structure has always been fragile, ever since the trauma of partition in 1947. But the recent upsurge in regionalism is threatening to undermine not only Mrs Indira Gandhi's standing as Prime Minister and head of the Congress (I), but also the ability of the central government effectively to rule over India's disparate 22 states.

Separatist or regional movements based on caste, ethnic or religious causes are hardly surprising in a country of 22 states where 14 entirely different languages, excluding English, are spoken and officially recognised. Nearly all the states were originally formed on a linguistic basis. It is language, more than any other factor, which has proved to be particularly divisive.

Ethnic, cultural and religious differences among the 700 million people of India accentuate the enormous problems involved in keeping intact a country of its size and diversity. These provide ready ammunition for politicians who exploit and often exacerbate the emotions that such differences arouse.

Secessionist movements began soon after India became independent in 1947 when the British Mountbatten Commission (DMK) openly preached an independent state of Madras. Even before independence, the former princely states of Hyderabad, Kashmir and Travancore preferred to continue as independent countries.

However, it is a matter of considerable pride to India's leaders that the country has up to now withstood many of the strains and challenges, albeit with increasing difficulty. In times of natural disasters or wars in the last four decades — the communities have sunk their

differences and demonstrated they can unite in crises — the personalities of the powerful leaders who have recognised the dangers of the divisive forces and committed themselves to protecting India's unity. Mrs Gandhi, like her father Jawaharlal Nehru, India's first Prime Minister, considers maintenance of the country's integrity as vital. Unlike her father, however, she faces new challenges in the form of strong regional and political groupings led by personalities with large followings of their own.

The rise of powerful regional parties coincides with — and many claim is due to — the disintegration of the Congress Party as a national force. Shorn of the last vestiges of the momentum of the freedom struggle, Mrs Gandhi's Congress (I) appears to have lost its appeal — the Prime Minister's critics claim — has been reduced to a vehicle for perpetuating the dynasty begun by her father.

Many regional Congress leaders blame Mrs Gandhi's choice of her elder son, Rajiv, as her future successor on the party's decline. She denies this and blames them for being corrupt and unresponsive. Whatever the truth, the party suffers, and this encourages the growth of regional power.

Until now the most ominous symptoms of this have been the armed insurrections in many of the turbulent tribal states in the remote North-East and the bloody communal strife being witnessed in Assam. But last month four South Indian Chief Ministers who are not members of Mrs Gandhi's ruling Congress (I) Party formed a regional council, bringing together Andhra Pradesh, Karnataka, Tamil Nadu and Pondicherry. In Delhi Mrs Gandhi's party reacted in virtual panic as if its southern opponents had declared war on India.

"If all chief ministers held meetings like this it would be an extra-constitutional step," said C. M. Stephen, general secretary of Congress (I) and a close lieutenant of Mrs Gandhi.

The move by the southern Chief Ministers joggled Mrs Gandhi into hastily announcing the formation of a commission to inquire into relations between the central government and the states.

But the disease is proving contagious. In the northern state of Kashmir, which also borders Pakistan, the late Sheikh Mohammed Abdullah's son, Dr Farooq Abdullah, has been leading a similar move. Dr Abdullah says the Chief Ministers of northern states should form their own regional council. Kashmir is to hold elections to its legislature next month. Mrs Gandhi's Congress (I) will contest every seat against Dr Abdullah's National Conference Party.

His call has not received any response yet from other northern states which are ruled by the Congress (I). But northern Chief Ministers "trade union" could become a reality if Marxist West Bengal and the Punjab decide to respond positively.

However, in a surprise development at the weekend, Dr Abdullah called for an electoral agreement between his party and Mrs Gandhi's Congress (I). Nevertheless, there are all the ingredients of a confrontation which could have far-reaching effects on the structure of India's polity. The Indian constitution lays down the areas in which the central and state governments function.

Since all of India's prime ministers have been supporters of a strong central government, the states complain that their autonomy has been steadily eroded over the years, making them embarrassingly dependent on the whims of the leaders

and bureaucrats in New Delhi. This has been done by the simple expedient of appointing financial powers to the central government, often leaving the states to stand in line for their share of funds. These are disbursed in terms of a formula prescribed every five years by successive Finance Commissions. The states say that this has strengthened the centre's powers while diluting their own.

Two examples will illustrate this: first, the role of the planning commission — which has no constitutional status — in allocating the central government's assistance for development projects means all the Chief Ministers have to make an annual pilgrimage to New Delhi to quibble over relatively small amounts. Second, the states have no recourse to deficit finance unlike the centre as the Reserve Bank of India has been ordered not to allow them overdrafts.

Other irritants are the Central Government's jurisdiction over large contingents of the central reserve police even

The pilgrimage to Delhi to quibble over small amounts

though law and order is the responsibility of the states. New Delhi presides over the vital Central Bureau of Investigation and Intelligence agencies.

Legal experts argue that the existing constitution does still allow a balanced relationship between New Delhi and state regimes. But this theoretical position does not take into account a whole host of central laws and administrative encroachments.

Much now depends on Mrs Gandhi's new commission. And this in turn will be heavily influenced by her own attitude. Apart from wanting to maintain the central government's powerful position, she also faces a political challenge in the coming elections.

But she needs no reminding that the real strains which have already surfaced in Assam, Punjab, the North-East, and now in the South could crack the creaking federal structure conceived to keep a diverse sub-continent intact.



MRS INDIRA GANDHI Faces regional challenges

Lombard

The impact of budget deficits

By Samuel Brittan

IT USED to be common ground that both budget deficits and monetary expansion stimulated an economy, although there was much argument about whether that stimulus was to output and employment or just to inflation.

Of late, however, a new view has arisen. This maintains that budget deficits are not expansionary, even in nominal terms, and may actually be contractionary. A list of four reasons has been compiled by Prof Ronald McKinnon of why U.S. budget deficits have a net deflationary impact.

In total the list is convincing, but the question I want to ask is whether all the items necessarily apply to other countries; or whether they would apply to the industrial world as a whole. To keep the argument manageable, I shall assume that monetary policy does not change "to accommodate" increased budget deficits.

The first restrictive aspect of budget deficits is that they drive up interest rates, and thereby discourage investment.

The second is that, however firm the present monetary stance, the prospect of large budget deficits a long way ahead creates the risk that at some future date they will be financed by monetary expansion. Nominal interest rates will, therefore, be raised further than the first argument alone would suggest, because of pessimistic expectations about future inflation.

The third deflationary aspect of budget deficits is partly a side-effect of the increase in interest rates. This attracts overseas funds. Thus the real overseas rate rises (at least so long as short term confidence is maintained); and there is therefore a downward pressure on profit margins in the trade and services sector, which becomes uncompetitive. This is a major explanation of the depth of the recent U.S. recession and the problems of U.S. industries, such as steel and autos.

Fourthly, when the dollar rises over other leading currencies tend to raise their interest rates and contract monetary growth to defend their own exchange rates. The recessionary effects of a high dollar are thus not

offset by expansion in countries such as Germany and Japan. This fourth influence clearly arises from the asymmetrical position of the dollar in the world currency system and does not apply to other countries. More generally, the rising exchange rate mentioned in the third argument could not occur if the industrial world as a whole expanded its budget deficits in appropriate proportions.

On the other hand, the first contractionary effect of budget deficit, namely the rise in interest rates, applies to any country and to the world as a whole. But most evidence suggests that this effect is not enough by itself to offset the primary stimulus of the deficit itself in raising demand.

The additional boost to interest rates coming from the second effect — the aggravation of inflationary fears — could, however, conceivably be enough to tip the balance of effects towards restriction, even without bringing in exchange rate repercussions. But here countries differ widely. The inflationary fears set off by a given increase in budget deficit will vary according to the prevailing degree of nervousness about inflation and according to the size of past and prospective deficits before any increase is mooted.

Thus the effect of budget deficits will depend on time and place. Two American economists, Bergsten and Klein, have just advocated a co-ordinated fiscal stimulus from Germany, Japan and Britain. They are probably right to argue that this would give a stimulus to the size of past and prospective deficits before any increase is mooted.

Both monetary and fiscal policy are means of managing monetary demand. The question of whether it is a primary matter to be decided according to the circumstances. It would be easy to imagine circumstances — say, when sterling is weak — when a policy of fiscal stimulation, but tighter money, would be appropriate for the UK. It would be silly to rule out such options because of a prior ideas about "balanced budgets."

Letters to the Editor

Measuring the profitability of takeovers

From Mr E. Sturgess

Sir, — With reference to your article of April 13 on "Takeovers and efficiency" and the letter by Kevin Freedman (April 19), I cannot agree with his statement that "there is very little support for the proposition that takeovers are the symptom of a healthy stock market discipline." This question is as yet still very open and his assertion that the bulk of the evidence suggests that takeover activity is unprofitable, is quite simply incorrect.

The evidence referred to by Mr Freedman compares the weighted performance of a sample of independent firms pre-merger with the performance of the unified companies post-merger. Accounting ratios are generally used as measures of profitability, the data being extracted from company balance sheets. There are hosts of problems involved in the use of accounting data, but he has chosen to ignore many studies in takeover activity which have employed theoretically appropriate performance measures derived from capital market indicators. Most of these studies have found that positive net

gains accrue to shareholders of both companies involved in takeovers, although the division of gains is often such that the benefits accrue to the owners of the acquired firm on average. Much of this work has been undertaken in the U.S., but there are some British studies published including one of the brewing industry.

Accounting-based studies must use capital market indicators and compared their performance with that of a matched sample of firms which have grown internally over a ten year period. In contrast to an earlier work on the same sample that had used accounting ratios and had found an unprofitable route to growth, I found no significant difference between the groups in terms of performance.

The conflicting evidence suggests three possibilities: accurate ratios are not an accurate means of measuring the profitability of takeovers;

the inclusion of "once-only" acquisitions biases the sample towards those firms having an unhappy experience of takeover; or the accounting based studies are right and the other studies are wrong. If this is true we must account for the uncomfortable inference that because the capital market measures are based upon gains in anticipation of future income flows, investors over the past 20 years have been repeatedly disappointed and, even worse, have consistently made mistakes in their assessment of the value of takeovers. This is hard to swallow and conflicts with all the theoretical knowledge and empirical evidence on investment behaviour.

Whatever the evidence on a few case studies of the efficiency of a particular takeover, the conventional model that the "market" knows more about the effects of takeovers on the efficiency with which assets will be employed than a regulator or agency has a valuable device if slightly tarnished. Brian Sturgess, City University Business School, Froisher Crescent, Barbican, EC2.

Barter trade and Brazil

From Mr F. Stolp

Sir, — Mr El-Erian (April 14) is perfectly right in claiming that a bilateral barter-trade agreement is now the only right solution to be recommended to each creditor country of Brazil. Each country should stipulate such agreements with Brazil separately. Each agreement should contain at least the following conditions. Only funds "blocked" in Brazil should be used by each creditor country for settling imports from Brazil, and for this, imports from Brazil should be subject to the previous issue of a "currency certificate" to the importer, obligating him to buy from a major bank "blocked" assets in Brazil for the payment for his imports. Exports to Brazil should be limited, and/or suspended, depending on the circumstances, until such time as the "blocked" debts have been "collected" by imports into the creditor country. Afterwards, the "value ceiling" of new exports to Brazil should be so "calibrated" as to equal, more or less, the estimated total value of the new imports from Brazil into the creditor country. The purpose of this exercise is to forestall Brazilian relapse into new heavy indebtedness. Also the "blocked" funds in Brazil should be freely assignable to third parties for use, of course, in Brazil only.

Major industrial projects in Brazil will have to be achieved by several West European countries jointly, each of them taking over in "payment" as "non-monetary means of payment" acceptable and easily marketable Brazilian goods. Afterwards, there will be still some economic growth in Brazil, although on a limited scale. Franz Stolp, Martin-Belmont-Str 1/17, 8 München-70, W. Germany.

Adopting the customs From the Director General, Japan Trade Centre Sir, — I wish to correct a possibly misleading impression conveyed by your report (April 19) which referred to a survey of Japanese investment in the UK. The item contains a quotation saying that Japanese children had been sent home to Japan because they had developed Welsh accents, or had learned to speak Welsh. To the best of my knowledge, no Japanese children have been sent home to Japan because they have developed Welsh accents, or acquired the skill to speak the Welsh language.

In fact, the Japanese people have always taken great interest and pleasure in learning the language and culture and adopting the customs of the countries in which they live. K. Minura, 19-25, Baker Street, W1

Redirecting pension money

From Mr T. Arthur

Sir, — Mr Stuart Brickell (April 19) contradicts himself in asserting that capitalism has short term horizons. It has taken some 200 years for Adam Smith's "The Wealth of Nations" to be overtaken (by Mr Brickell's letter) as the best argument for free-market capitalism, in particular for freedom in the areas of saving and investment. Support comes from the most unlikely quarters! T. G. Arthur, 17 Highfield Road, Edgbaston, Birmingham.

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Portugal likely to push mandate for \$300m Euroloan

BY ALAN FRIEDMAN IN LONDON

TODAY is election day in Portugal and one of the first duties of the new government will be to speed along a formal mandate for the country's attempt at a \$300m Euroloan.

By Friday, some 16 banks were said to have agreed to underwrite the seven-year deal with interest at 7 per cent over the London interbank offered rate (Libor) or 0.45 per cent over U.S. prime. Televis was dispatched to Lisbon over the weekend and bankers involved in the credit said they hoped to hear from Portugal soon after the election.

Bankers met in London on Thursday to finalise the credit and the meeting is said to have been less than a euphoric event. The Portuguese credit has been a long, hard struggle, and the original idea of a \$400m to \$500m deal at 7 per cent over Libor or 0.20 per cent over prime took some time to bite the dust.

Now that the banks have finally put their revised offer to Lisbon only two things remain to be said. First, bankers can now no longer level accusations about the credit being timed inappropriately ahead of the election. Second, this is a deal which must succeed if Portugal is to avoid damage to its credit-rating in the Euromarkets.

Portugal's next-door neighbour, Spain, is still sounding the market out on a proposed \$500m credit, but some bankers are less than keen on the 7-1/2 per cent split terms being mooted for the 8-year deal.

From Ireland, meanwhile, comes word that the \$300m 7-year credit has been increased to \$500m because of heavy demand. Some 27 underwriters are involved now, each taking an \$18.5m stake.

Belgium has just concluded a surprisingly small \$50m credit through the Paris branch of Al Saudi Banque. The idea had been to raise significantly more than \$50m, and some bankers are known to have

objected to the terms, which include a 7 per cent element.

For North Africa, a meeting in Algiers over the weekend was intended to award a formal mandate for a planned \$500m credit for Sonatrach, the state oil company.

Four Arab banks - Arab Banking Corporation, Banque Arabe Internationale d'Investissement, Gulf International and Union de Banques Arabes et Francaises - are expected to play a key role in lead-managing the deal.

The proposed terms - a split spread of 7-1/2 per cent over Libor for eight years and a 7 per cent commitment fee - left some London-based bankers cold. Nonetheless, this is a rare appearance for an Algerian borrower and a fair degree of interest is growing among banks.

On the Latin American front, today sees a meeting in New York of Venezuela's 12-bank advisory committee. Chase Manhattan will chair the meeting, designed to review the status of talks between Venezuela and the International Monetary Fund.

Bank of America will report on its study of the \$8bn to \$7bn of private sector debt falling due this year and the meeting will also discuss the proposed rescheduling of \$10bn of short-term public sector debt and possibly the question of whether it is necessary to also reschedule a further \$2bn of medium-term debt which matures this year.

Also in New York this week U.S. banks will meet to discuss their part in restoring interbank lines to Brazilian banks. This follows last week's London meeting, which launched a world-wide campaign to persuade banks to restore \$1.5bn of interbank lines, bringing the total to \$7.5bn. U.S. banks are believed to be \$500m to \$600m behind their target.

EUROBONDS

Lack of investor enthusiasm

BY MARY ANN SIEGHART IN LONDON

THE EUROBOND market sputtered along last week, rather like an ageing automobile in need of a tune-up. Investors were not abundant, but new issue managers pushed out nearly \$1bn of paper and at least there were no outright flops.

Pieces of bonds in the dollar, D-Mark and Swiss franc sectors declined by 1/4 to 1/2 point on average, with lack of investor enthusiasm the main factor. Some investors appeared to be considering a trade-in of their Bondmobile for a more up to date Equity Car.

The primary market in the dollar sector held up reasonably well under the pressure, but the secondary market was definitely mistaking by the end of the week. One trader said: "It looks like 'sell in May and go away' has come to the Eurodollar bond market two weeks early this year."

Friday saw yet another bank issue on top of the 11 launched so far

this month. Citicorp is raising \$100m through a seven-year, 10% per cent bond, priced at par and led by Morgan Guaranty and Citicorp. At its issue price it yields 10.532 per cent. "A marginal deal," was how it was described by one new issue manager. "There's not much money to be made out of it, but not much to be lost either."

But unlike most of the other bank bonds, it was not done for interest rate swap purposes. On Friday it was trading in the pre-market at a 1/4 point discount, just inside the co-management concession.

Today should see the launch of a 15-year convertible dollar bond from Mitsubishi Electric, led by Daiwa. The \$100m issue is expected to yield about 9 1/2 per cent. S. G. Warburg and Societe broke new ground last week by arranging what is claimed to be the first currency and interest rate swap between sterling and Swiss francs. The vehicle was a SwFr 100m five-

year private placement on behalf of Finance For Industry (FFI) with a coupon of 5 1/2 per cent at par. The counterparty was Enel, the Italian electricity utility.

FFI has taken over Enel's sterling floating rate liability, paying a respectable margin under 3-month Libor. Enel has ended up with what is in effect a syndicated Swiss franc loan from the intermediary banks, and the banks are paying the interest to the bondholders.

The other British deal in the market last week caused more controversy. BOC launched a \$50m, eight-year, 11 1/2 per cent Eurosterling bond at par. Lloyds Bank International finally won the lead management mandate after offering a lower coupon than other banks but the deal did not go well, reaching discounts of more than 3 points during the week, before recovering on Friday to close at a 2 1/2 point discount.

Soma people in the market sug-

gested that the coupon was too low and the amount too high. One new issue manager said: "For a corporate name which is not absolutely top drawer, you're pushing it if you want \$50m."

In Japan the Ministry of Finance seems to be reacting to Japanese companies which are "pushing it" on the Swiss market. Investors are becoming increasingly weary of the amount of Japanese paper flooding the market, especially in small denominations. As a result the Ministry has decided to relax the rules regarding domestic convertibles in an attempt to lure borrowers back to the domestic market.

Under the new rules corporations with good credit ratings will be able to raise funds at a full 2 per cent under the base rate coupon, rather than 1.5 per cent.

In the first quarter of this year, Japanese borrowers launched 55 of the 85 new Swiss Franc foreign bond issues.

TRADE FINANCING

Bankers to meet again on Nigeria

BY QUENTIN PEEL IN LONDON

CONSIDERABLE secrecy has shrouded the discussions of the leading U.S. and European banks involved in financing trade with Nigeria, who are owed a substantial part of that country's estimated \$5bn arrears on short-term payments, and have been seeking agreement on how best to tackle the problem.

A further meeting is to be convened in London on Wednesday by Barclays Bank International at which at least 19 banks are expected to attend, after last week's public confirmation by President Shehu Shagari that his Government is hoping to raise up to \$2bn in foreign loans.

Prospects for an agreement between the banks, however, seem slim, because of their difference in principle over the question of consolidating the outstanding short-term debt.

The discussions are also likely to be hampered by the lack of any clear data on the size of the backlog, or the current level of Nigerian imports, as well as uncertainty over the outcome of the government's negotiations with the International Monetary Fund.

The differences between the banks emerged two weeks ago at the first meeting convened by Barclays, where the proposal was put to convert the arrears they were owed into a medium-term credit of 18 months to three years.

The U.S. banks, led by Bankers Trust International, objected in principle to consolidating trade debts into a medium-term credit, and also argued strongly that they were being asked to lend money without being given adequate information.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS								NEC Corp. **\$1	150	1988	-	3 1/2	100	SBC	3.500
Fuji Int. Fin. †	100	1990	7	10 1/2	100	Fuji Int. Fin., Kinsew Benson	10.875	Kawashima Textile **\$1	20	1988	-	4 1/2	100	J. Henry Schroder Bank	4.125
BMF-Bank Ltd. ††	24.5	1990	7	7 1/2	100	BMF-Bank	7.500	Yamato Kogy **†	20	1988	-	6	100	UBS	6.000
Interbank U/S Fin. ††	24.5	1992	10	6	100	UBS Secs.	6.000	Old Electric **†	80	1988	-	3 1/2	100	SBC	-
Mitsubishi †	80	1990	15	5 1/2	100	Sumitomo Int.	100	Japan Devt. Bank	100	1993	-	-	-	CS	5.500
SWC **††	80	1991	8	-	100	Ryan, Indemnity	100	Tony Soliman **	25	1988	-	-	-	CS	5.000
Westpac †	100	1990	7	11	100	Merrill Lynch	11.000	Finance For Industry **†	100	1988	-	5 1/2	100	Societe, SG Warburg	5.625
OC Bank †	100	1990	7	11	100	OC Bank, Goldman Sachs, Hambros Bk.	11.000	Alco	100	1993	-	-	-	CS	5.625
Japan Air Lines †	42.15	1990	11	10 1/2	100	SG Warburg, IBI Int.	10.875	Indelco	80	1993	-	-	-	Paribas (Swiss)	5.625
ENI ††	250	1991	9	5 1/2	100	BMF, Merrill Lynch, Bk. of Tokyo Int.	10.875	ADBC	100	1994	-	-	-	Societe	5.500
Citicorp †	100	1990	7	10 1/2	98 1/2	Morgan Gp., Citicorp	10.532	DAIWA	-	-	-	-	-	-	-
Mitsubishi Electric †	100	1998	15	5 1/2	-	-	-	-	-	-	-	-	-	-	-
CANADIAN DOLLARS								STERLING							
Can. Pac. Secs. †	50	1990	7	11 1/2	100	Driscoll Bank	11.875	BOC †	50	1991	8	11 1/2	100	Lloyds Bank Int.	11.750
D-MARKS								AUSTRIAN SCHILLINGS							
Deutsche †	100	1993	18	8	99 1/2	West LB	8.875	African Devt. Bank †	400	1991	7	8 1/2	100	Girozentrale	8.750
Commerzbank †	100	1998	5	7 1/2	100	West LB	7.750	GUINEES							
SWISS FRANCES								Industrial Bk. of Finland †	75	1993	5 1/2	8 1/2	100	Bank Mest et Hope	8.750
Add Construction **\$1	30	1988	-	4	100	Swiss Volksbank	4.800	Roblin Elec. Supply **†	75	1988	5	8 1/2	99 1/2	ABN	8.576
Sandstrom Rensky **\$1	50	1988	-	3 1/2	100	CS	3.875	ECIS							
Bonanza **\$1	50	1988	-	3 1/2	100	UBS	3.750	Foremarks Kraftgrupp	40	1990	15	-	-	Kreditbank Int., BBL, Sec. Gen. de Banque	-
NEC Corp. †	100	1993	-	3 1/2	100	SBC	3.500	YEN							
								Finland †	20	1993	9	8.1	99.45	Yamashita Secs	8.349

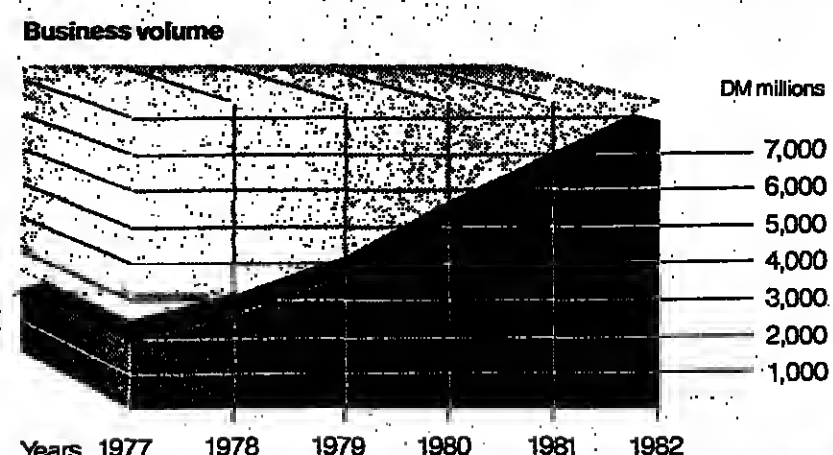
* Not yet priced. †† Final terms. ** Placement. † Floating rate note. ‡ Minimum. \$ Convertible. † With warrants. †† Registered with U.S. Securities and Exchange Commission. Note: Yields are calculated on AIBO basis.

European Asian Bank

1982 HIGHLIGHTS

In 1982 our Bank continued its progress in spite of an unfavourable economic environment, increasing the business volume by 21% to DM 7.9 billion, and total assets by 16% to DM 6.2 billion. This sustained expansion is most clearly demonstrated by the growth in short- and medium-term loans to customers, by 31% to DM 2.3 billion. The emphasis of our activities has remained on short-term international trade finance. Operating profits were again satisfactory.

We have continued the vigorous expansion of our overseas branch network, which includes imminent new openings of branches in Lahore and Macau, as well as a representative office in Japan and a merchant banking joint venture in Australia. The Bank is now represented in 15 key centres in the Asia-Pacific area.



	DM millions	1982	1981
Business volume	7,883	6,504	
Total assets	6,215	5,257	
Total deposits	5,640	4,794	
Capital and reserves	300*	300	
Net interest and commission income	188.2	150.0	
Taxes	42.3	35.5	
Dividend	(10%)** 14.7	(10%) 12.6	

* A capital increase implemented in February 1983 brings total capital and reserves to DM 355 million.
 ** Effective dividend including tax credit: 15.6% (1981: 14.1%).

European Asian Bank

The European bank for business in Asia

 Hamburg · Bangkok · Bombay · Colombo · Hongkong
 Jakarta · Karachi · Kuala Lumpur · Lahore · Macau · Manila · Seoul · Singapore
 Sydney · Taipei · Tokyo

All of these Securities have been sold. This announcement appears as a matter of record only.

U.S. \$50,000,000

Northern Telecom International Finance B.V.

7% Convertible Subordinated Debentures Due 1998

Convertible at U.S. \$89.00 per share, subject to adjustment, into Common Shares of and guaranteed on a subordinated basis as to payment of principal, premium, if any, and interest by

Northern Telecom Limited

MORGAN STANLEY INTERNATIONAL	BANQUE PARIBAS
ALGEMENE BANK NEDERLAND N.V.	LEHMAN BROTHERS Kuhn Loeb
McLEOD YOUNG WEIR INTERNATIONAL	MORGAN GRENFELL & CO.
ORION ROYAL BANK	SWISS BANK CORPORATION INTERNATIONAL
UNION BANK OF SWITZERLAND (SECURITIES)	S.G. WARBURG & CO. LTD.
ABU DHABI INVESTMENT COMPANY	AL-MAL GROUP
ARNOLD AND S. BLEICHROEDER, INC.	JULIUS BAER INTERNATIONAL
BANK BRUSSEL LAMBERT N.V.	BANK OF AMERICA INTERNATIONAL
BANK CANTRADE SWITZERLAND (C.I.) LTD.	BANK OF TOKYO INTERNATIONAL
BANQUE ARABE ET INTERNATIONALE D'INVESTISSEMENT	BANQUE GENERALE DU LUXEMBOURG S.A.
BANQUE INDOSUEZ	BANQUE INTERNATIONALE A LUXEMBOURG S.A.
BANQUE DE NEUFELIZE, SCHLUMBERGER, MALLET	BANQUE NATIONALE DE PARIS
BAYERISCHE VEREINSBANK	BERLINER HANDELS-UND FRANKFURTER BANK
CAISSE DES DEPOTS ET CONSIGNATIONS	CAZENOVE & CO.
CITICORP CAPITAL MARKETS GROUP	COMMERZBANK
COUNTRY BANK	CREDIT COMMERCIAL DE FRANCE
CREDITANSTALT-BANKVEREIN	DAI-ICHI KANGYO INTERNATIONAL
DEUTSCHE BANK	DEUTSCHE GIRONZENTRALE
DRESDNER BANK	ENSKILDA SECURITIES
GENOSSENSCHAFTLICHE ZENTRALBANK AG	GIROZENTRALE UND BANK DER OESTERRICHISCHEN SPARKASSEN
GOLDMAN SACHS INTERNATIONAL CORP.	GRUPEMENT DES BANQUIERS PRIVES GENEVOIS S.A.
HAMBROS BANK	HANDELSBANK NW (OYERSBAS) LTD.
IBJ INTERNATIONAL	KIDDER, PEABODY INTERNATIONAL
KUWAIT INTERNATIONAL INVESTMENT CO. S.A.	KUWAIT INVESTMENT COMPANY (S.A.K.)
MANUFACTURERS HANOVER	MERRILL LYNCH INTERNATIONAL & CO.
SAMUEL MONTAGU & CO.	THE NIKKO SECURITIES CO. (EUROPE) LTD.
SAL OPPENHEIM JR. & CIE.	OSTERREICHISCHE LANDBANK
RICHARDSON GREENSHIELDS OF CANADA (U.K.)	N.M. ROTHSCHILD & SONS
SALOMON BROTHERS INTERNATIONAL	SANWA BANK (UNDERWRITERS)
J. HENRY SCHRODER WAGG & CO.	SHEARSON/AMERICAN EXPRESS INTERNATIONAL
SMITH BARNEY, HARRIS UPHAM & CO.	SOCIETE GENERALE
SVENSKA HANDELSBANKEN GROUP	VEREINS-UND WESTBANK
WOOD GUNDY LIMITED	WESTDEUTSCHE LANDESBANK
	YAMAICHI INTERNATIONAL (EUROPE)

April 22, 1983

Closing prices April 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month	High	Low	Stock	Dr. Yld. E	P/E	12 Month	High	Low	Stock	Dr. Yld. E	P/E	12 Month	High	Low	Stock	Dr. Yld. E	P/E	12 Month	High	Low	Stock	Dr. Yld. E	P/E
23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	
69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	
92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	
115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	
138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	
161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	
184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	
207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	
230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	
253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	
276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	
299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	
322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	
345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	
368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	
391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	
414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	
437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	
460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	
483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	
506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	
529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	
552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	
575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	
598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	
621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	
644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	
667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	
690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	
713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	
736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	
759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	
782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	
805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	
828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	
851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	
874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	
897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	
920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	
943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	
966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	
989	990	991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	
1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032	1033	1034	
1035	1036	1037	1038	1039	1040	1041	1042	1043	1044	1045	1046	1047	1048	1049	1050	1051	1052	1053	1054	1055	1056	1057	
1058	1059	1060	1061	1062	1063	1064	1065	1066	1067	1068	1069	1070	1071	1072	1073	1074	1075	1076	1077	1078	1079	1080	
1081	1082	1083	1084	1085	1086	1087	1088	1089	1090	1091	1092	1093	1094	1095	1096	1097	1098	1099	1100	1101	1102	1103	
1104	1105	1106	1107	1108	1109	1110	1111	1112	1113	1114	1115	1116	1117	1118	1119	1120	1121	1122	1123	1124	1125	1126	
1127	1128	1129	1130	1131	1132	1133	1134	1135	1136	1137	1138	1139	1140	1141	1142	1143	1144	1145	1146	1147	1148	1149	
1150	1151	1152	1153	1154	1155	1156	1157	1158	1159	1160	1161	1162	1163	1164	1165	1166	1167	1168	1169	1170	1171	1172	
1173	1174	1175	1176	1177	1178	1179	1180	1181	1182	1183	1184	1185	1186	1187	1188	1189	1190	1191	1192	1193	1194	1195	
1196	1197	1198	1199	1200	1201	1202	1203	1204	1205	1206	1207	1208	1209	1210	1211	1212	1213	1214	1215	1216	1217	1218	
1219	1220	1221	1222	1223	1224	1225	1226	1227	1228	1229	1230	1231	1232	1233	1234	1235	1236	1237	1238	1239	1240	1241	
1242	1243	1244	1245	1246	1247	1248	1249	1250	1251	1252	1253	1254	1255	1256	1257	1258	1259	1260	1261	1262	1263	1264	
1265	1266	1267	1268	1269	1270	1271	1272	1273	1274	1275	1276	1277	1278	1279	1280	1281	1282	1283	1284	1285	1286	1287	
1288	1289	1290	1291	1292	1293	1294	1295	1296	1297	1298	1299	1300	1301	1302	1303	1304	1305	1306	1307	1308	1309	1310	
1311	1312	1313	1314	1315	1316	1317	1318	1319	1320	1321	1322	1323	1324	1325	1326	1327	1328	1329	1330	1331	1332	1333	
1334	1335	1336	1337	1338	1339	1340	1341	1342	1343	1344	1345	1346	1347	1348	1349	1350	1351	1352	1353	1354	1355	1356	
1357	1358	1359	1360	1361	1362	1363	1364	1365	1366	1367	1368	1369	1370	1371	1372	1373	1374	1375	1376	1377	1378	1379	
1380	1381	1382	1383	1384	1385	1386	1387	1388	1389	1390	1391	1392	1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	
1403	1404	1405	1406	1407	1408	1409	1410	1411	1412	1413	1414	1415	1416	1417	1418	1419	1420	1421	1422	1423	1424	1425	
1426	1427	1428	1429	1430	1431	1432	1433	1434	1435														

Closing prices April 22

Continued on Page 26

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Continued on Page 2

Shows figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the interim trading day. Where a split or stock dividend amounting to 25% or more is shown, the figures are based on the new share price. Dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

x-dividend=last ex(clude)s; a-annual rates of dividend paid; b-bonus; c-cumulative including dividend called; d-new year's dividend; e-earnings; f-future; g-growth; h-high; i-interest; j-joint; k-low; l-dividend growth; m-monthly; n-new; o-offer; p-price; q-quarterly; r-ratio; s-stock; t-tax; u-uniform; v-volatility; w-with; y-yearly; z-zero.

w-dividend in Canadian funds, subject to 10% non-residence tax. x-dividend declared after split-up or stock dividend. y-dividend declared after split-up or stock dividend. z-dividend declared after split-up or stock dividend. a-dividend meeting. b-dividend declared or paid this year, an accurate indication with dividends in arrears. c-new issue in the market. d-dividend growth. e-dividend growth. f-dividend growth. g-dividend growth. h-dividend growth. i-dividend growth. j-dividend growth. k-dividend growth. l-dividend growth. m-dividend growth. n-dividend growth. o-dividend growth. p-dividend growth. q-dividend growth. r-dividend growth. s-dividend growth. t-dividend growth. u-dividend growth. v-dividend growth. w-dividend growth. x-dividend growth. y-dividend growth. z-dividend growth.

NEW YORK **Indices**
DOW JONES

MONTREAL		1995					
		Apr. '95	April '95	April '95			
		'89	'91	'90	'91	High	Low
Industrials	389.24	382.75	385.50	387.15	389.24 (224)	331.18 (47)	
Combined	685.05	675.41	680.04	680.51	709.22 (224)	528.12 (47)	
TORONTO Composite	3326.84	3218.18	3302.65	3275.5	3495.24 (224)	1948.15 (47)	

NEW YORK EQUITY STOCKS						
	Stocks	Closing	Change		Stocks	Change
	traded	price	on		traded	on
			day			day
Chrysler	2,767,000	6	+	Auto Prod.	1,161,000	56 1/2
Amer. Motors	2,632,000	6	+	ATI	1,073,000	59 1/2
Bank America	1,012,000	23 1/2	+	Norfolk. Indiane	888,000	104
Bank. of N.Y.	1,523,000	7 1/2	+	16th. Indiane	888,000	104
Gen. Inv.	1,217,000	1 1/2	+	N.M. Group	800,000	117 1/2

	Apr. 22	Apr. 21	Apr. 20	Apr. 19	High	1985	Low
AUSTRALIA 100 Swd. 1/1600 Nelson & Nelson (1/1600)	\$67.4 \$67.4	\$68.5 \$67.1	\$68.1 \$67.4	\$67.1 \$67.4	\$67.4 (22 1/2) \$67.4 (22 1/2)	467.4 (4 1/2) 471.6 (4 1/2)	
AUSTRIA Credit Aktien (2/1600)	54.82	54.98	54.74	54.67	54.74 (20 1/4)	48.88 (18 1/2)	
BELGIUM Belgian Sse (5/12/85)	121.56	121.56	120.85	121.82	122.88 (18 1/4)	108.55 (4 1/2)	
DENMARK Copenhagen SE (4/1600)	100.00	100	107.21	100.27	108.16 (16 1/4)	100.00 (4 1/2)	
FRANCE CAC General (5/12/85) Ind Tendence (5/11/85)	116.5 125.4	116.5 125.4	119.3 124.5	121.9 125.5	121.9 (16 1/4) 127.4 (18 1/4)	88.3 (3 1/2) 88.9 (4 1/2)	
GERMANY DAX General (5/12/85) Commerzbank (Dec 1985)	918.25 918.25	915.37 915.37	915.1 927.1	915.25 918.25	918.25 (22 1/4) 922.42 (22 1/4)	841.88 (25 1/2) 727.3 (25 1/2)	
HONG KONG Hang Seng Bank (5/17/84)	1005.55	1004.48	1030.32	1045.18	1052.26 (14 1/4)	791.51 (25 1/2)	
ITALY Borsa Comit (12/17/82)	150.57	151.11	155.98	156.70	214.55 (21 1/2)	150.45 (18 1/2)	
JAPAN** Nikkei Average (15/6/84) Tokyo New Sse (4/1/85)	5555.12 552.32	5545.59 552.12	5554.48 552.42	5541.39 552.42	5549.55 (18 1/4) 552.42 (22 1/4)	7005.18 (25 1/2) 574.81 (25 1/2)	
NETHERLANDS CAC General (15/6/84) ANP CBS Index (15/6/84)	125.5 125.5	125.4 125.4	125.5 125.5	125.4 125.5	125.4 (18 1/4) 125.4 (18 1/4)	102.1 (4 1/2) 93.3 (4 1/2)	
NORWAY Oslo Sse (4/1/85)	170.8	170.45	186.04	185.82	170.30 (22 1/4)	88.81 (4 1/2)	
SINGAPORE Straits Times (1986)	817.51	819.58	862.78	868.88	517.81 (22 1/4)	712.28 (5 1/2)	
SOUTH AFRICA Gold 11850 Industrial (1986)	817.5 849.5	806.1 815.1	885.6 824.4	806.1 805.5	1005.5 (17 1/2) 805.5 (22 1/4)	854.3 (22 1/2) 740.9 (18 1/2)	
SPAIN Madrid Sse (5/17/82)	118.80	118.85	105.85	111.45	118.08 (15 1/4)	96.32 (11 1/2)	
SWEDEN Stockholm S.P. (1/1/85)	1595.87	1595.85	1559.29	1522.45	1536.85 (21 1/4)	985.18 (5 1/2)	
SWITZERLAND Smi Swiss Bank (5/11/85)	818.5	818.9	815.4	817.4	518.5 (22 1/4)	294.4 (4 1/2)	
WORLD Capital Intl. (5/1/74)	—	174.2	174.2	172.3	174.2 (22 1/4)	154.5 (5 1/2)	

(*) Sunday April 18: Japan Dow (c), TSE (c).
 (**) Base value of an Indian rupee is 100 cents. **Australia**: All Ordinary and Materials. **NYSE All Common**: 500 Standard and Poor-500 and Toronto-1,000. The term earned based on 1976. **Excluding bonds**, **\$ 400 Industrials**, **\$ 400 Industrials plus 40 Utilities**, **40 Financials** and **20 Technology**, **c Closed**.

1985		April 69		Price		
High	Low			\$	%	
385	339.5	Aarhus Olie	374	4.50	5.25	DO
680	160	Andalebanken	279	46	84%	DO
488	891	Baltica Stand	485.4	25%	30	DO
513.4	408.0	Böckerbank	502.9	65%	47%	FA
383.8	17	Danske Bank	374	10%	20	DO
313	358	Deutsche Bank	375	2.00	1.85	DO
675	650	Forenede Brygg	675	3.8%	1.26	DO
125.4	148	Forenede Buss	652.4	10%	14%	DO
306	287	Genl	306	22	10%	HU
474.0	97	Genl	480	80	51%	HU
287	157	Jyske Bank	470	10%	14%	HU
9	8	Landm	9	25	10%	HU
270.5	185.4	Loe Ind	259	97	28%	tm
326.4	167.9	Provinssbanken	618.0	17%	25%	tm
326.4	185.4	Smidts Bank	355.0	17%	25%	tm
770	583	Sophus Berz	749	21%	20%	tm
189	97.2	Superfort	182.2	97%	61%	tm

[illegible][illegible]

... ..

THE FIVE-STAR RATES

Figure 1. The effect of the concentration of the *Agrobacterium* suspension on the transformation efficiency of *Agrobacterium* strains. The concentration of the *Agrobacterium* suspension was 10⁶ cells/ml (a), 10⁷ cells/ml (b), 10⁸ cells/ml (c), and 10⁹ cells/ml (d). The concentration of the *Agrobacterium* suspension was 10⁶ cells/ml (a), 10⁷ cells/ml (b), 10⁸ cells/ml (c), and 10⁹ cells/ml (d). The concentration of the *Agrobacterium* suspension was 10⁶ cells/ml (a), 10⁷ cells/ml (b), 10⁸ cells/ml (c), and 10⁹ cells/ml (d). The concentration of the *Agrobacterium* suspension was 10⁶ cells/ml (a), 10⁷ cells/ml (b), 10⁸ cells/ml (c), and 10⁹ cells/ml (d).

Brewing

More emphasis on the pubs

down higher profits are on the way with an upturn in volume.

However, worldwide brewing sales are still looking on the characteristics of a mature market with little growth and a shrinking in the number of brewing companies. In the United States, the largest beer market, for example, Anheuser-Busch and Miller control nearly half the total market and recently G. Heileman, the fourth largest US brewing group, has acquired Pabst, the fifth largest group.

On the Continent there is a similar trend, with a reduction in the number of brewers. The 10 largest Breweries German (Brewery Control) control a fifth of Germany's total market, Europe's largest, and at the other end of the scale some 1,000 breweries in Bavaria account for just 1 per cent of the total. In France, the market is dominated by Boussies Soncheg Neuvels (BSN); in Belgium Artois is able effectively to set going prices in the market.

Practically the exception to this shrinkage is the UK, where political considerations inhibit a merger wave. However, some brewers, including Bass, would be keen to test the use of European law in order to obtain some clarification of Government competition policy in relation to the industry.



Left: Brewery shares are back in favour with investors, outperforming the FT Actuaries All-share Index by 30 per cent last year. Right: Mr Charles Tibbory, chairman of the Brewers' Society and of Whitebread and Co, announced planned spending by the industry of £1.58bn during 1983/85, an increase of 8 per cent in real terms over the amount of the previous three years

T & S THAKSTON LTD.
Carlisle Brewery, Bridge Street,
Carlisle, C2E 5SE
Tel: 0228 29467

BEERS: Thakston's Best Bitter.

MANSTON THOMPSON & EVERSHED PLC.
PO Box 25, School Road,
Burton-on-Trent,
Staffs, ST14 6BN
Tel: 0203 31151

DRAUGHT BEERS: Podifree Best
Bitter-Burton Bitter-Capital Ale
-Heavy Best Best Mild-Merican
Wild-Union Ale-Merican's Pilsner
Lagerbier.
Podifree Bottled Ale Low "C"
and Lager.

MURRELL'S BREWERY LTD.
1782-1982
The Lion Brewery,
St Thomas Street,
Bristol G1
Tel: 0852 842013

DRAUGHT BEERS: Oxford Light Ale,
Dark Mild Ale, Norville Best
Bitter, Norville 200 Ale,
Varsity Bitter, Celebration Ale,
College Ale.
The last two are also available in
bottle, our famous Castle Ale is
available in bottle only.

THE TISBURY BREWERY CO PLC.
The Old Brewery,
Tisbury,
Wiltshire, SP3 6NH
Tel: 0747 870666

BEERS: Tisbury Local Bitter,
Tisbury Local Heavy Bitter,
Tisbury Old Gmble.

DEVONISH MOUTH BREWERY LTD.
The Brewery,
Barnstaple, T31S 2NA
Tel: 0208 213501

BEERS: Cornish Best Bitter,
John Devonish Bitter, Mild Ale,
Carmen Pale Ale Bitter,
Granville Standard Lager,
Saxony Bitter.

POLLARDS BREWERY LTD.
Unit 12
Pulborough Industrial Estate,
Station Road,
Pulborough,
West Sussex
Tel: 0903 815477

NEWMARK NATIONAL GLASS supply
about one third of the bottles used by
Bristol's Brewers and were the first, in
collaboration with Thakston's to
launch a Widesmouth beer pack in
the UK.
NEWMARK NATIONAL GLASS LTD.
Fishergate, York, YO1 4AD
Tel: 0904 31371

T & S THAKSTON LTD.
Rushmore,
Ripon,
York, YO4 4DX
Tel: 076 582 544

BEERS: Old Peculier, X.B.,
Thakston's Best Mild.

EVERARDS BREWERY LTD.
Tiger Brewery,
Cattle Acres,
Barbours,
Leicestershire, LE15 5DY
Tel: 0533 091818

BEERS: Old Driffield?,
Tiger Bitter, Beacon Bitter,
Burton Mild, Sabre Lager.

CHARLES WELLS LTD.
The Brewery,
Burford Road, YOK
Tel: 0234 65100

BEERS: Eagle Bitter, Moogle Keg
Bitter, Kollerbrau Lager,
Bombarvier Bitter, Red Stripe
Lager.
Full range of own bottle and own
can beers available.

FULLER SMITH & TURNER PLC.
Griffie Brewery,
Ditchfield, London W4 2QB
Tel: 01 894 3691

BEERS: Extra Special Bitter (ESB)
London Pride, Chimwick Bitter,
Mack.
Full range of own bottle and own
can beers.

SHEPHERD HEANE LTD.
Faversham Brewery,
17, Court Street,
Faversham, ME13 7AX
Tel: 079682 2286

BEERS: Bishop's Finger,
Ruster Brew Bitter,
Abbey Ale, Hurlmann Lager.

SUSSEX BREWERY LTD.
Unit 12
Pulborough Industrial Estate,
Station Road,
Pulborough,
West Sussex
Tel: 0903 815477

BEERS: Sussex County Ale
Marrior Best Bitter.

MANFIELD BREWERY PLC.
Manfield,
Northamptonshire, NN16 1AB
Tel: 0623 25691

BEERS: Manfield Bitter,
Manfield Mild, Morkman Lager,
"2 LITTLE PITS" Manfield Pale Ale,
"JUBBED" Manfield Bitter, Apts, 16oz
Morkman Lager 16oz,
Mankura Soft Drinks -
TM Beach Soft Drinks.

Q WHOLE & CO. PLC
The Brewery,
Langham, Oakham,
Bedford,
Leicestershire, LE15 7AD
Tel: 0572 56911

BEERS: Ruddles County,
Ruddles Bitter.

W H BRADSHAW & SONS PLC.
The Brewery,
Henley-on-Thames,
Oxon, RG9 2BU
Tel: 04912 3636/7

BEERS: Mild Ale,
Bitter, Special Bitter,
XXXX and Headline Beer
Bottled Henley Light Ale,
Henley Brown Ale,
Henley Pale Ale,
Henley Strong Ale.

YOUNG & CO'S BREWERY LTD.
The New Brewery, Hantsnorth,
London SW18 4JD
Tel: 01 870 8141

BEERS: Bitter, Special Bitter,
Best Mild Ale,
Mister Hammer, Ram Rod,
John Young's London Lager.

MARKLEY BREWERY LTD.
44, Hommonds Drive,
East Sussex.
East Sussex, BN23 6PW
Tel: 0323 642430

BEERS: Brighton Bitter,
Brighton Special, Agency Bitter,
Old Devil.

BREWING II

Lager predominates in shifts of taste

BRITAIN'S BEER market has two strong, apparently contradictory characteristics. The first is that it is a conservative market, there are no rapid changes from one type of beer to another. Secondly, it is a market full of new products and heavy advertising and promotion.

The link between the two is that while there is often feverish marketing activity between the different types of beer there is only a slow drift from one type to another, eg from mild and bitter to lager and cider.

According to the Brewers' Society figures for 1981, the latest available, the British beer industry can be divided into the following percentages.

Light mild 2.7 per cent, dark mild, 8.5 per cent, premium bitter and stout 12 per cent, non premium bitter 33 per cent, premium lager 2.1 per cent, non premium draught lager 2.1 per cent, packaged light pale and export 7.3 per cent, packaged lager 9 per cent, brown ale 1.6 per cent, stout 3.2 per cent and strong ales and barley 0.5 per cent.

Compared to 1971 there has been a marked decline in mild, premium bitters, light pale and export and stout compared with sharp gains by lager—up from 9 per cent of the total market to a third today. This rise of lager has been commented upon endlessly within the industry. While the big brewers are still proportionately more dominant in lager—Bass alone has 22 per cent of the national market—the regional and independent "brewers" are coming increasingly into the market.

Three case studies illustrate the lager market and the brewers' different tactics. ● Watney Mann's deal with Carlton and United Breweries (Australia) in August 1981 to

brew Foster's lager under licence in the UK. The aim was for a medium strength lager which did not have a continental image. The first year was to see production of 40,000 bulk barrels building up to 500,000 bulk barrels a year over the next five years.

Watney by a combination of heavy advertising with a witty theme (a spend of \$856,000 for

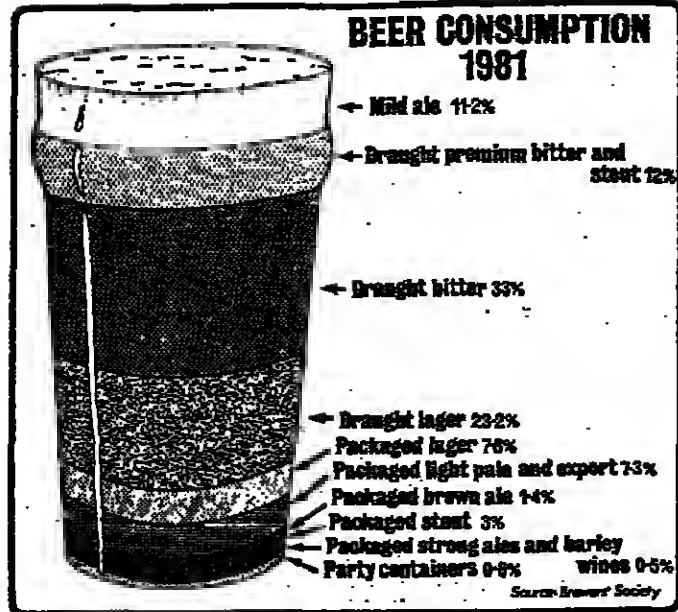
by Ellerman Lines in an agreement with Dortmunder Actien Brauerei (West Germany's third largest brewer) produces Hansa lager under licence. Production is now between 80,000 and 90,000 bulk barrels a year and since it came on to the UK market two years ago, it has achieved national distribution with 40 per cent of its sales in cans.

This leads to the vexed question of how profitable is selling lager in cans. The evidence is difficult to assess because brewers will accuse each other of selling cans (at best) for marginal cost while strongly denying that they do it themselves. Each year there are informal talks about keeping prices firm then new producer breaks ranks and the whole process starts again.

The cider boom of the past year has proved one of the most exciting growth areas in the industry. Cider enjoys a good image with the public, rural, nostalgic and youthful—and with retailers enjoying a considerably higher mark up on it than on other beers (prices are the same or higher than bitters but the duty is considerably lower) it is little wonder that cider shares have mushroomed up among the market winners.

Last year cider sales rose by about 20 per cent to 60m gallons production and more particularly cider sales in public houses went up by 40 per cent. This "cider explosion" has to be kept in perspective however; cider only accounts for about 3 per cent of the total UK beer market. The sector has had fast growth before only to see it evaporate.

● Cider production went up from 41m gallons to 47.7m gallons in 1978 to fall back the following year to 44.8m gallons. Poorer weather and the imposition of duty took



its toll.

So what causes the cider boom? The answer appears to lie in distribution and timing rather than simple advertising. The growth has come from the public houses. Mr John Rudgard, managing director of H. P. Bulmer (the market leader with more than half the market) believes that growth is dependent on availability of cider on draught. There are estimates that some 55 per cent of cider is sold through on-licences and 45 per cent through off trade with the balance changing heavily in favour of the on trade. As only a fifth of public houses carry cider on draught, there is obvious room for expansion and the brewers are expanding their cider facilities very quickly.

According to Mr Dennis Bailey, of stockbrokers Hitchens Haxson, one of the earliest city watchers to identify the cider boom, the catalyst was the Royal Wedding in the summer of 1980. Cider has been seen by its consumers, the young working class, as a good-value-for-money drink.

The young working class male is what Guinness is trying to woo back. Guinness has been very open about its image prob-

lems and the way it is trying to tackle them provides the third major development in the UK beer market during the past year.

Guinness has missed out on the country's mainstay drinkers, the young working class males between the ages of 20 and 34. Guinness felt it needed to persuade the 1.7m drinkers under the age of 35 who drank Guinness occasionally to drink more. This widening of the market seemed to the company the only option as 8 per cent of drinkers consumed 35 per cent of its volume.

Research showed that Guinness was regarded as old fashioned. Alarmingly, as well as Guinness all have differing objectives as well as different approaches. Guinness is dealt with separately elsewhere in this survey.

It is there that the similarities end, however. The big six are all doing very different things as well as different approaches. Guinness is dealt with separately elsewhere in this survey. ● Bass: this is easily the largest UK brewer, with beer sales of more than 7.5m bulk barrels. The company's activities are predominantly brewing—74 per cent of group turnover compared to 18 per cent leisure. Bass wants to increase the leisure side to 25 per cent by the middle of the decade.

Mr Derek Palmer, the chairman, says the image of Bass "is paramount to me." He runs a group with more than 7,000 public houses and 13 breweries through a decentralised system based on performance indicators monitored by the main Bass central headquarters team. "It is a question of seeing that the right people are in management. We try to review policies once a year in each region and company performances are monitored monthly."

Much in common but objectives differ

BRITAIN'S seven major brewers have had a mixed year; profits have been rising despite falling beer sales and the stock market has decided it likes the sector after the doubts of previous years.

The six main brewers—Bass, Allied-Lyons, Whitbread, Grand Metropolitan, Scottish and Newcastle, and Courage—in that order of importance—account for about 75 per cent of the 37.8m bulk barrels sold in Britain last year. They own half the country's 76,000 public houses and in larger they account for more than 80 per cent of volume sold.

Compared to their smaller brethren, the six brewers have a lot in common. They produce a far wider range of products and are much more involved in canned beer for supermarkets and take home outlets.

They invest more in public houses, charge higher prices for their beers and make lower rates of return on capital invested. (They also tend to reveal more often so comparisons can be misleading.) All six have gone through substantial changes in the past three years, but have decentralised their management.

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Bass has cut back its work force steadily but with a low profile. It has been hit hard by its exposure in the more depressed regions such as Scotland, Wales and the West Midlands. But it has a vigorous upgrading programme for its public houses, allowing this year for pub improvements. Bassburger fast food outlets have been introduced in some of the northern pubs for instance.

● Allied-Lyons, Britain's second largest brewer pushed up its

has brought down its unit costs and in an effort to widen the brand portfolio Whitbread Best Bitter will be launched this month backed by a £4.5m advertising campaign.

● Grand Metropolitan. "We are not mesmerised by the mazzini but see ourselves as pub operators," says Mr Allen Sheppard, the group managing director of Grand Metropolitan and in charge of Watney Mann and Truman Breweries, one of the key lieutenants in the Grand Met empire. It is a marketing approach which has pushed up the company's share of the market and it now handles some 5m bulk barrels a year, including about 1m from Carlsberg.

Watney Mann and Truman has some 5,000 tenanted houses and 1,600 pubs in the managed Chef and Brewer chain. Management is quiet, hardworking, unostentatious but cost-cutting. The workforce has been cut by between 25 per cent and 30 per cent since 1980, with the blue collar employees cut back rather more than the administrative staff.

● Scottish and Newcastle. The only brewer to be based outside London, it has been hurt by its depressed trading base in the North East and Scotland and its relatively small number of tied houses—1,480. While the rest of the majors are working on an assumption that the beer market is now plateauing out, S and N is remembered to further volume falls. But it has left its profits plateau of the past seven years and the new management system is starting to settle down.

● Courage. The company forms part of Imperial Brewing and Leisure Division since the beginning of the year Courage's brewing and distribution sides have been dealt with by different trading companies.

Mr Michael Pickard, the chairman of the division, says the two sides had become less compatible and in an increasingly competitive market retailing required special skills. Courage has been adventurous with its marketing, scooping up advertising awards, and more importantly pushing up its share of the national beer market.

The Big Six

GARETH GRIFFITHS

pre-tax margins last year from 7.8 per cent to 8.5 per cent, a reflection of the economies the company has made through its slimdown. This looks set to continue and will be combined with an emphasis on decentralised management, allowing what Sir Derrick Holden-Brown, the chairman, calls bringing the best managers to the fore.

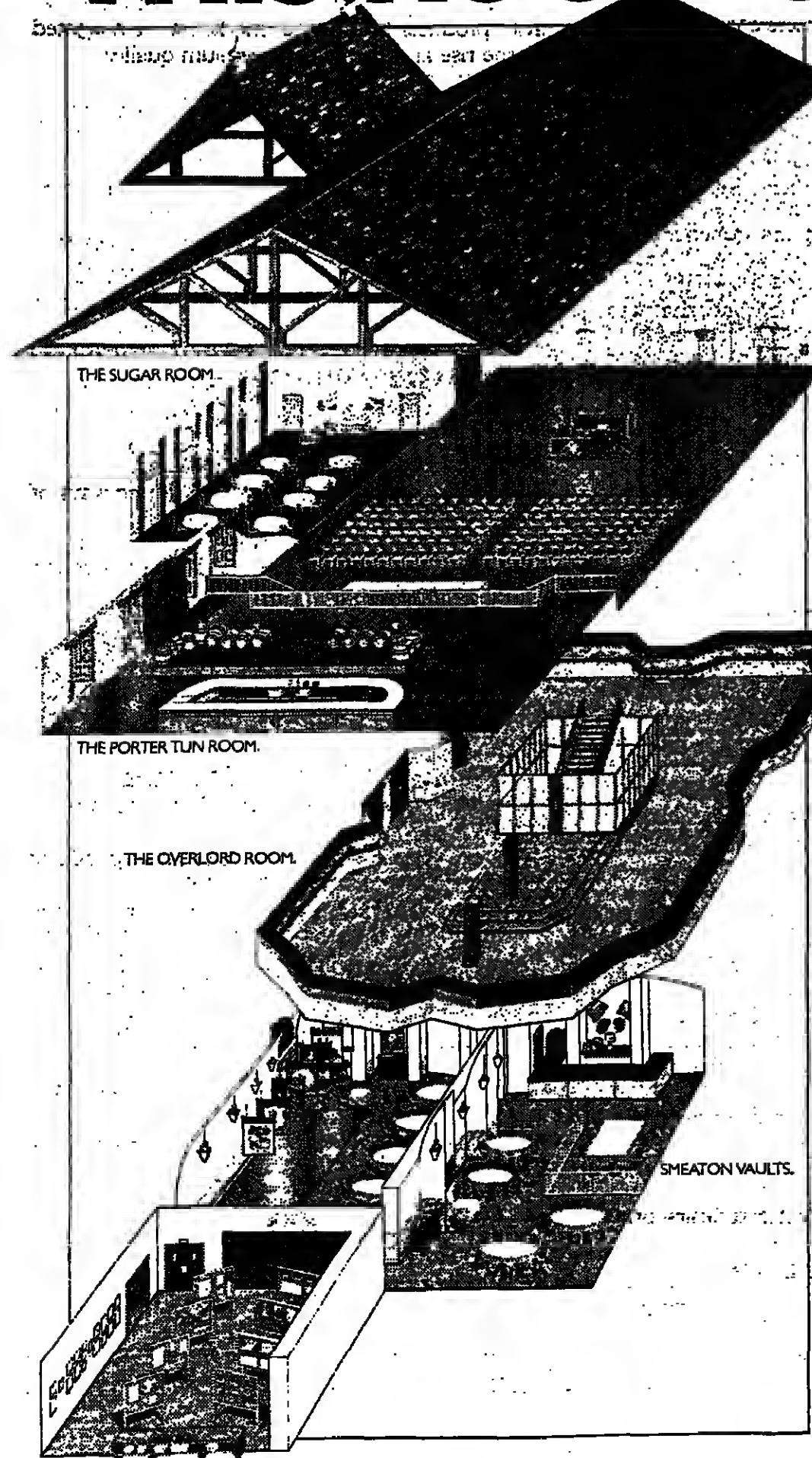
● Whitbread. The company has done rather well in the UK beer market this year and along with Grand Metropolitan and Courage has pushed up its market share. Interestingly, Bass regards Whitbread rather than Allied-Lyons as its main rival.

"Our aim is to go for down-the-throat leisure," says Mr Charles Tidbury, Whitbread's chairman and also chairman of the Brewers' Society.

The result has been a string of acquisitions, with more on the way. In the U.S. Whitbread has bought Julius Wile and Sons, Fleischman Distilling and a 49 per cent stake in All Brand Importers from Nabisco as well as the French wine company Calvet.

At home the emphasis is on improving the nearly 7,000 public houses. The company has closed down seven local breweries. The latest casualty was Whitbread Wesssex at Portsmouth with the loss of 123 jobs this September. But Whitbread

NO HOTEL CAN MATCH THIS ROOM SERVICE.



just imagine. You need to hold a sales conference for 800 in the morning.

A discreet Directors' meeting in the afternoon. Then a formal banquet for 500 in the evening. Not only that, you want space for a major product display. And of course, parking's a must for all concerned.

To put it mildly, even the biggest London hotel would find that something of a problem. But for The Brewery, it's no problem at all.

At the heart of the City of London, this fine Georgian building has been converted by Whitbread into a series of impressive banqueting and conference rooms.

However ambitious your requirements, we've got the space and facilities to match.

The Porter Tun Room.

Completed in 1784, this room was originally used for the fermentation of porter, for many years the nation's favourite drink.

Beneath the massive unsupported King post timber roof, there's room for a reception of 850 people or a formal banquet of 500.

If required, of course, space can be reduced for smaller parties, or used for exhibition and display purposes.

The Sugar Room.

Ideal for smaller gatherings, the Sugar Room can cater for up to 80 guests at dinner, or 150 at a reception or cocktail party.

It also makes an admirable ante-room to the Porter Tun Room.

The Overlord Room.

With its famous 272 ft Embroidery depicting D-Day, the Overlord Room provides a splendid setting for private parties in the evening.

Some 300 people can be comfortably accommodated, although the area is also available for use in conjunction with the Porter Tun Room for major functions.

Smeaton Vaults.

The original cellars of the old brewery. Smeaton Vaults are the perfect size for most dinner dances, luncheons and office parties.

To make a reservation, or for some more information about The Brewery, contact the Sales Office, Chiswell Street, London EC1Y 4SD. Telephone: 01-606 4455.

Our reputation has been brewing since 1742.



Select group with strong local roots

BRITAIN'S SEVEN regional brewers have based in the 160,000 public houses for several years. Their size has appeared right for efficient management and their stock market capitalisation compared favourably to much better known company names in other sectors.

The seven regional groups in order of size are Greenall Whitley, Vaux, Wolverhampton and Dudley, Greene King, Marston, Tompkins and Evershed, Matthews Brown and Boddingtons. The Northern Clubs Federation brewery is in the same league as the seven regional brewers but is not a regional brewer.

Greenall Whitley is easily the largest regional brewery group. It is based in Warrington and has just under three per cent of the UK beer market. Greenall Whitley's decision last year to buy the Smith Group Sunshine Holidays, formerly part of Laker Airways, for £4m, highlighted the group's determination to diversify into leisure. Greenall seems keen to become the leisure group mix favoured by the national brewers. Last year a spending spree it bought out Ellerman Lines' interests in the Belby hotel and golf complex at Sutton Coldfield, and is spending £2m on development. It has also bought a small chain of bingo halls from the Playboy Organisation and the Treedway Inn in the U.S. for £2.4m. The group has 1,600 public houses with 460 managed houses in a trading area which is concentrated in the Midlands and North West.

Vaux also has pursued a vigorous diversification policy faced with a home base in depressed Sunderland. Its volume falls last year were in line with the national average fall of 4 per cent. The company has used the cash mountain it gained from the sale of its Lorimer chain of pubs in Scotland for £21m in 1980 to go into hotels and it has interests in Australia, Belgium and the U.S. The City has been rather cautious about such diversification, although both Vaux and Greenall have expansionist management philosophies concerned with what after all is a mature market with little prospect of organic growth.

Wolverhampton and Dudley has concentrated on its beer. Investors like such purity and the recent take over bid by Wolverhampton for the Birmingham-based Davenport, highlights the company's strengths and weaknesses.

Wolverhampton and Dudley wanted Davenport because it regards the company's beer portfolio and property base as complementary to its own. W and D is roughly four times the size of Davenport with 700 public houses and production of

575,000 bulk barrels compared to 124 public houses and 160,000 bulk barrels annual production.

The W and D style is summed up in the advertising slogan "unspoiled by progress." Mr Jeremy Kemp, the company's assistant secretary, says the brewery's approach to its public houses is a traditional one, the public bars are virtually unaltered and the aim is for authentic local materials rather than simulated schemes.

Regional Seven

GARETH GRIFFITHS

The same conservatism applies to the beer. While the rest of the country has switched away from mild, W and D customers have remained loyal. Mild accounts for 70 per cent of sales compared with 11.2 per cent for the brewing industry nationally.

"Our mild is light to drink but not light on colour," Mr Kemp says. Quality control is strict and the price competitive, between 49p and 51p a pint—important in the West Midlands where Bass, Allied-Lyons and W and D have been engaged in a year long price war.

The other main thrust of the company's success comes from its managed estate. Some 400 of the 700 public houses are managed, and in an industry where brewers complain of slippage in the quality of their premises, W and D has succeeded by a package deal which puts the manager on commission, giving an incentive to boost turnover.

The other four regional brewers have pursued policies more in line with W and D than Greenall and Vaux. The four all enjoy high reputations for their beers. Greene King, based in Bury St Edmunds, covers East Anglia but is keen to expand in London. The company enjoys a cult following for its cask conditioned ales, particularly the Abbot brand.

Marston also has a similar standing with beer enthusiasts. Its pedigree bitter is especially well regarded. It has to be because the brewery's distribution area is enormous—the Midlands, the West of England, Cheshire, Hampshire and Leicestershire. At the moment Marston seems keen on expanding in the West and has been buying public houses in Bristol.

Davenport is in some ways much more innovative. This beer-ethanol delivery service, which made it well known in the industry was well known in the 1960s and 1970s as the boom in off licences so it turned to new innovations in packaging.

"The brewery had the problem of seeing a major market shrink so the emphasis was to expand the market and company elsewhere," said Mr Neville Frost, managing director since the mid-1970s. Last year Davenport became involved in the production of a "lager, Jager, and Chocquer" bitter for the take home market in two litre polyethylene terephthalate (PET) bottles. It was a highly successful move and certainly more adventurous than anything conceived by the W and D management.

Matthew Brown, which trades in the North West is based in Blackburn and has some 530 houses within a 30 mile radius of the brewery. Free trade accounts for a third of sales and there were rumours that the brewery would step in with its own offer for Davenport. The management strategy is expansionist but cautious.

Boddingtons, or Boddies as it is known in its home city of Manchester, is very much a traditional brewer. Some 80 per cent of the beer is traditional mild and bitter ales, and these are sold very competitively in the north. The brewery accounts for more than 800,000 bulk barrels a year.

IMI Norgren Enots active in beer dispense

The Norgren Series 80 CO₂ pressure reduced system for dispensing beer, stout and cider has gained popularity in the major breweries, public houses and bars. The system is particularly suited to the variety of this popular system which can be used for dispensing beer, stout and cider. The IMI Norgren Enots are also showing a new "push" condition. The Enots system at Brew together with water spray and regulators and an expanded range of Enots push-in and compression tube connections.

Further details are available from IMI Norgren Enots Ltd., Norgren Works, Shipway-De-Stour, Warrington, Cheshire, WA9 6JL.

THE PENNINS BREWERY CONTROLLER

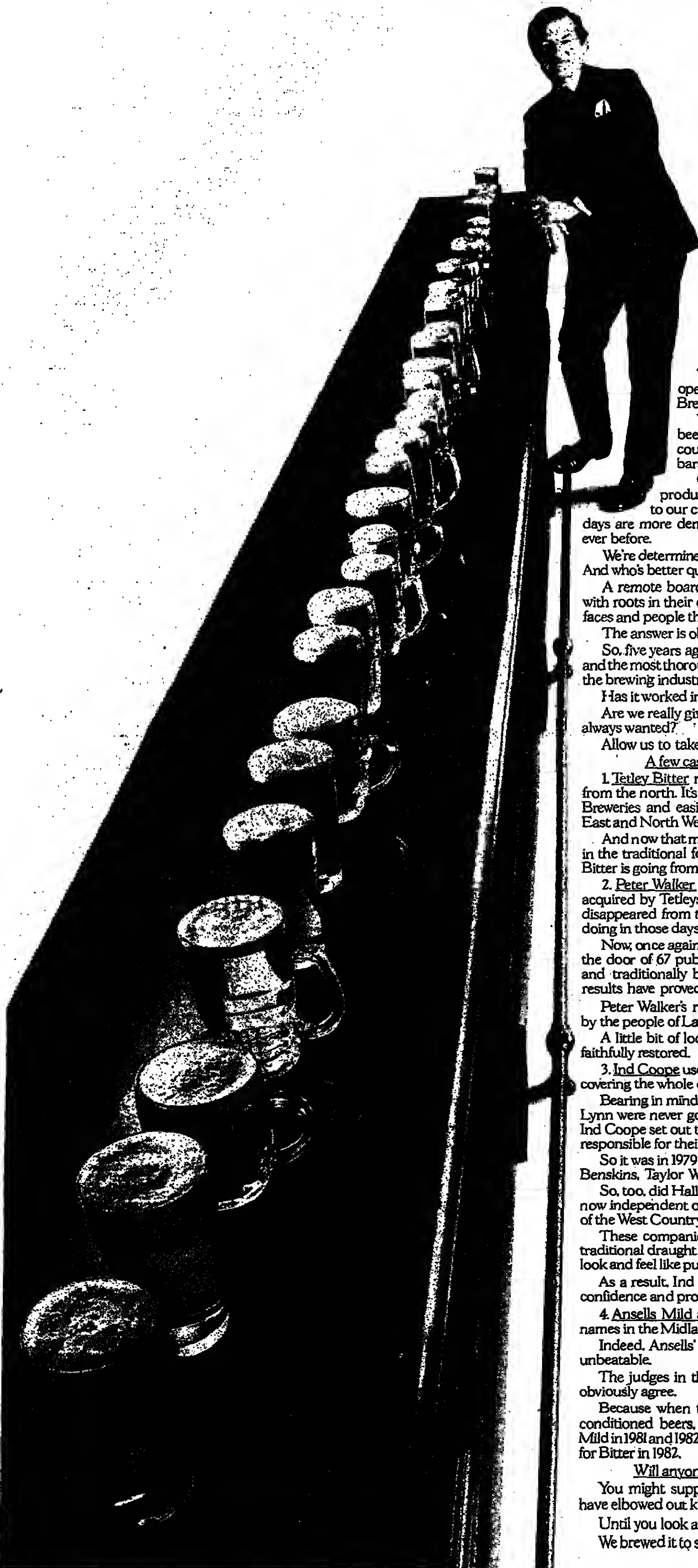
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Contact: C. M. Griffiths, Peninsular Enots Ltd., Norgren Works, Shipway-De-Stour, Warrington, Cheshire, WA9 6JL. (0544) 230 720 and at Brewex '83.

"To run a business like ours successfully, we've found that thirty-two heads are better than one"

Douglas Strachan, Managing Director, Allied Breweries Limited.



There are thirty-two independent operating companies within Allied Breweries.

We could have shown you the 154 beers in our portfolio. But modesty, coupled with a shortage of very long bars, prevented us.

Our management style and our product range reflect our commitment to our customers—customers who these days are more demanding and more diverse than ever before.

We're determined to get as close to them as we can. And who's better qualified to do that?

A remote board in Burton? Or local companies with roots in their own communities and with names, faces and people that are known and recognised?

The answer is obvious, isn't it?

So, five years ago, we carried out the most genuine and the most thoroughgoing programme of devolution the brewing industry has ever seen.

Has it worked in practice?

Are we really giving the customers back what they always wanted?

Allow us to take you on a short pub crawl.

A few cases of cask conditioning.

1. **Tetley Bitter** needs no introduction if you hail from the north. It's the largest ale brand within Allied Breweries and easily the brand leader in the North East and North West.

And now that more and more pubs are serving it in the traditional form—through handpumps—Tetley Bitter is going from strength to strength.

2. **Peter Walker** was a Liverpool brewery that was acquired by Tetleys in the early sixties. The name disappeared from the scene, as names had a habit of doing in those days.

Now, once again, 'Peter Walker' can be found above the door of 67 pubs that offer traditional pub values and traditionally brewed cask conditioned ales. The results have proved nothing short of outstanding.

Peter Walker's return has been warmly welcomed by the people of Lancashire and Cheshire.

A little bit of local identity and pedigree has been faithfully restored.

3. **Ind Coope** used to be run as one single business, covering the whole of the south.

Bearing in mind that beer drinkers' tastes in King's Lynn were never going to match those in Truro, Ind Coope set out to restore local managements, each responsible for their own market.

So it was in 1979 that some famous old names like Benskins, Taylor Walker and Friary Meux returned.

So, too, did Halls Oxford & West Brewery Co., now independent of Ind Coope, to quench the thirsts of the West Country.

These companies offer their own individual traditional draught beers, and pubs which once again look and feel like pubs.

As a result, Ind Coope has been transformed: confidence and profits are surging ahead.

4. **Ansell's Mild and Bitter** have been household names in the Midlands for over a hundred years.

Indeed, Ansell's drinkers will tell you that they're unbeatable.

The judges in the Great Western Beer Festival obviously agree.

Because when they adjudicated the cask-conditioned beers, Ansell's Mild took first prize for Mild in 1981 and 1982, while Ansell's Bitter took first prize for Bitter in 1982.

Will anyone still swallow keg beers?

You might suppose that traditional draught ales have elbowed out keg beers.

Until you look at the success of John Bull.

We brewed it to succeed a long line of quality beers,

for drinkers looking for a consistent, reliable pint.

Launched in 1980 by the Romford Brewery Co., its sales have exceeded our best expectations.

Available in more than 30,000 outlets, John Bull is doubling the sales of the product it replaced.

Meanwhile, north of the border, the Alloa Brewery has scored a major success with Diamond Export and Diamond Heavy.

Obviously, our keg beers still have a lot to offer.

National brands. Aren't they having a flat time of it?

Quite the contrary.

Long Life, our renowned brand leader in England and Wales, has increased its market share in the packaged light, pale and export market.

(No mean achievement when you consider the competition in the premium quality sector.)

Skol remains Allied Breweries' biggest brand, having consolidated its position as the best known lager in the UK and one of the most famous beer brands in the world.

And bearing in mind the trend towards the low gravity products in the lager market, we're delighted with the rise and rise of our premium quality Lowenbrau range.

As Lowenbrau's UK agents, we can proudly say that it's brewed to the Reinheitsgebot—the strict system of quality control exercised in Germany.

And we can proudly add that there's a handsome increase in Lowenbrau sales since last year.

A flat time of things? Not for our brands at any rate.

Are our 'take-home' beers being taken home?

In one of the fastest-growing sectors of the market we're delighted to report that we have the fastest-growing company.

Namely, Allied Breweries Take Home Limited.

Within the last year it has achieved market leadership in England and Wales.

Creating the right atmosphere.

Naturally, we're always actively exploring ways of extending our market.

Younger people demand style, brightness and fun—and they are very good judges of these things, too.

So, up and down the country, we have been giving them what they were looking for.

We've introduced a whole range of lively and colourful new ideas—Light and Sound pubs, fun pubs, brewhouse pubs, and new American-style bar restaurants, 'Diners' and 'The Vermont Exchange'.

These have all been a sensational success.

The return of the satisfied customer.

We hope you've enjoyed our rather circuitous journey.

We hope you have the chance to sample a good few of the brews we've passed along the way.

We hope, too, you'll find evidence to support our claim that we are closer than ever before to the heart-beat of our customers.

Close enough, literally, to overhear their requests at the bar.

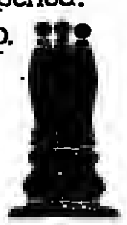
Be it for traditional beers, conviviality, food or entertainment.

We're immensely proud of what we've achieved.

Quite clearly our policy is the right one.

Because last year, when beer consumption went down, guess what happened.

Allied sales went up.



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BREWING IV

The small brewer retains a profitable niche, as explained below

Where family links are strong

THE SMALL brewery sector is very much the redoubt of Britain's hereditary beerage. It is estimated that families control 47 of the independent brewery companies and family influence is considerable in the remaining 16. There are still Popses across in Eldridge Pops, Neames within Shepherd Neame and a Young is chairman of Young and Co.

With the heavy capitalisation of most breweries there is a great deal of hereditary wealth within the industry and potential for Unlimited Securities Market operations.

A general definition of a small brewer is one producing less than 1 per cent of the national market, i.e. under 370,000 bulk barrels. But there are even smaller brewers than those defined in this way as independents. The Small Independent Brewers Association represents about 75 small craft brewers each supplying a small number of outlets.

Interestingly, a 1982 report from the Intermediate Technology Group found that there were few economies of scale in brewing. Beer-making savings in larger plants were offset by higher selling, distributive and administrative costs. The report said "in practice both large and small brewers have different though valid roles to play, one providing cheaper bulk beer and the other distinctive local ones. The concept of minimum efficient scale turns out to have little meaning. What is more useful is the distinction made in German industry between the 'industrial' and the 'handwerk' sectors of production."

Local brewers had been very

much the rule in the industry until the development of a national beer market in the post-war period. In 1951 there were more than four times the number of brewery companies in 1981, 362 companies compared to 80.

Small brewers did well in the 1970s with sales increasing on average by 6 per cent a year compared with the larger companies' growth rate of 1 per cent a year during the decade. With the 12 per cent decline in beer consumption since 1979 the smaller brewers have proved more successful in defending their volumes than the large nationals.

The independents have done well for three reasons.

- The family nature of the business has helped cut down costs. Family members can play board as well as front line management roles eliminating the need for an additional tier. Decision making can be flexible and quick. Among the workforce there is usually a certain loyalty and in many small country towns it is quite common to find brewery workers whose families have worked there for four generations. Wages are usually lower than in larger companies.
- Most independent companies mainly concentrate on supplying outlets within a 30 mile radius although this could be changing. Companies such as J. A. Devenish in the West Country are highly exposed to the vagaries of the tourist trade for most of their profits. Devenish like several other small brewers has tried to relieve the pressure by pushing into London. But severe competition in the capital could prove a major problem for small brewers.
- The smaller companies do not have the expense of developing new products. They are able to pick and choose whether to produce their own beer for export or to buy in. J. W. Cameron, the Hartlepool brewer, for instance wants a deal with other independent brewers to sell its lager. Hausa: S. A. Brain and Shenberd Neame are in a deal with Rurimann of Switzerland for a premium lager.

Two case studies illustrate some of the problems and potential strategies facing small brewers in the 1980s.

• G. Ruddle, the Rutland real ale brewer, joined the United Securities Market last May in order to raise money for expansion and also to give family shareholders a chance to diversify their holdings. The company, since getting rid of all its tied estate in 1977 except for one public house, had pursued a policy of controlled growth and with an emphasis on being a specialist in the quality end of a minority market. There had also been a rationalisation of production and packaging.

Ruddle supplied 75 per cent of its 60,000 bulk barrels per year to the pub trade which included such groups as Safe-

way, John Sainsbury and Waitrose who purchase Ruddle's under private label. Sainsbury's alone takes a fifth of Ruddle's output.

Such a dependence on the major chains worried Mr Tony Ruddle, the 46-year-old company chairman. He did not want to see all the company's eggs in one basket. He is also an enthusiast about the need for more choice. "The national brewers have brought back a few different beers but they have not brought back choice," he argues.

This time last year Mr Ruddle was propounding his ideas at a lunch given by Mr Allen Sheppard, Grand Metropolitan's group managing director, in charge of Watney Mann and Truman Breweries. The lunch was routine, one of several given by London-based brewers to their out of town counterparts before a meeting of the Brewers' Society. Mr Sheppard, a management generalist but with a keen marketing brain, listened.

Watney Mann was eager to expand its portfolio, and a fur-

Independents

GARETH GRIFFITHS

ther meeting was arranged. In October Ruddle started to supply Watney's London trading company, Watney Combe Reid, with its strong 10° 50° County Drought in 75 tenanted public houses and 75 Chef and Brewer managed houses.

The six month contract was renewed at the end of last month and Ruddle hopes to be in about 500 public houses in the capital. Mr Ruddle says he does not want Watney Combe Reid to become dominant in the brewery but there is talk of further deals with other Grand Metropolitan trading companies. Grand Metropolitan has already done a similar deal with George Gale, the Hampshire brewer.

Ruddle supplied on average 150 bulk barrels a week to Watney Combe Reid. The price is at a premium, around 90p a pint. It provides Ruddle with a major distribution system in the capital without any capital spending and Watney gains use of some of its slack in its transport fleet collecting the beer in bulk from Rutland.

Ruddle in any case wants to double its capacity to 120,000 bulk barrels during this decade. Changes in the tied house system could lead to smaller brewers becoming more involved in marketing links with the major brewers on a much wider scale.

• A more conventional story of how a small brewery pulled out of the doldrums is provided by Tollermeche and Cobbold brewery in the West, which was acquired by Ellerman Lines in

1977. At that time Tolly as it is called locally was a rather sleepy company. But it concentrated on improving its product portfolio and its tied estate. The brewery, which has some 300 tenanted and 60 strong public houses, faces strong competition from Adams, Greene King, the Norwich Brewery, Ind Coops and Charrington.

Mr Graeme Falconer, formerly the managing director (now of Watney Mann's national brand), the main architect of the recovery, saw his job as one-third defensive and two-thirds offensive. "We are selling products with a heritage and a package of products, price and service," he said.

Tolly introduced a new distribution system with indilling and closed down a few of its rural pubs. The average Tolly pub does about 220 bulk barrels a year. Some £2m has been spent since 1977 on improving the tied estate and economic results introduced for the public houses. The workforce shrank from 580 to under 400 in three years and a new keg bitter was introduced in February to pep up the product range although it lacks a premium lager.

The results are impressive with the brewery working at around 85 per cent of its capacity. Tolly Cobbold produces on average 110,000 bulk barrels a year.

The Intermediate Technology group study defined small craft brewers as producing less than 10,000 barrels a year. It found that most small brewers sell their beers through free houses and on average a small brewer supplies about 20 to 30 free house outlets. Success seems to be determined by keeping control over distribution and increasing the number of very small craft breweries over the past couple of years. These very small brewers each supply at most a handful of public houses.

The Small Independent Brewers' Association represents about 75 small producers with each producer ranging between 15 bulk barrels and 60 bulk barrels a week.

Probably the best known of the small brewers is Mr David Bruce, the founder of the Fox and Fiddle who has set up a company called Brunel. This provides a service for people wanting to set up their own small brewery and the total period involved from ordering is usually six weeks including a month for the job training. Prices range from £10,000 upwards for the Brunel package.

• **Pint Sized Production:** Small Firms in the Brewing Industry. A. E. Bolland, Intermediate Technology Development Group, 9, King Street, Covent Garden, London WC2.

public houses. Are they facing a decade of crisis as the authors of the most recent tome on the public house, "The English Public House in Transition" by Gwynfor Prys Williams and George Thompson Brake, suggests? Or have they managed to check the drift to the clubs that the brewers suggest is now happening?

Alan Bartlett is in no doubt that the public house has been at the sharp end of the decline in beer consumption - down 12 per cent nationally since 1979 and pubs have fared worse than the take-home trade. "You have cut the beer packed to make money," he says.

The Torrington Arms has a large bar and restaurant. The choice of drinks is wide - some 28 different options and bottles on display in the bar, four tins, two lagers and a mild. "When I started in 1964 it was whisky, gin, a bitter and a mild," Mr Bartlett says. Most of the drinks are tied - purchased through Whitbread - but where a drink is unavailable from the brewery Mr Bartlett buys it himself.

The Torrington Arms is busiest at the weekend and most of its customers are men. This is in line with the national picture. Britain's pubs tend to be busiest over the weekend and three-quarters of the customers are men.

Britain's pubs are part of the country's heritage. In Elizabethan England there were 25,000 ale-houses, and the brewers' links with the pub dates from the end of the last century.

Now there are 76,000 pubs in Britain. Some 35,000 are tenanted pubs, 14,000 are managed and owned by the brewer, and 27,000 are independently owned. There are, in comparison, 23,000 clubs, 42,000 off licences and 22,000 other licensed premises such as restaurants.

This month the Brewers' Society launched a film campaign aimed at enticing customers back into the pub and emphasising its sociability. The country's clubs have 30m members of clubs which can sell alcohol. Next to watching TV, pubs are the most popular of all leisure activities.

Lively contest between old rivals

WHEN U.S. brewers began using cans in the 1930s a leading British can maker confessed that he could not see the British public "contending on to the idea," and believed the glass bottle would remain supreme.

Fortunately for his shareholders his company decided to follow the U.S. vogue - today 84 per cent of all off-licence beer sales in the UK are in cans and canned beer sales continue to rise despite recent falls in beer consumption.

The excess of the beer can, now taken for granted, illustrates the dynamic nature of packaging, as alternative materials continually battle for the same market sectors or help to create new ones.

Today the packaging industry is in greater turmoil than ever. On the one hand the recession has undermined its customers. On the other there is an unperceivable profusion of new packs fighting for shrinking markets.

The wide range of materials is matched by the complex mixture of commercial and social factors affecting their use.

The success of PET partly reflects the preferences of the large retail chains. A Sainsbury executive recently prepared a paper for the Food Manufacturers Federation in which he said "we hate glass." In deference to the glass makers who were present, he reworded his remarks, saying "we're not wildly enthusiastic about glass."

Another influence is that of the environmentalist lobby, which condemns one-trip packaging as wasteful and lobbies for the restoration of the returnable bottle system.

Despite its persistent failures in Britain to secure restrictive or punitive legislation, the environmentalist lobby is taken very seriously by the packaging suppliers. This is evident from the efforts they devote to recycling and the activities of the counter-lobby, the Industry Committee for Packaging and the Environment (INCPE).

This committee carefully follows developments in other countries such as Denmark, which has banned the beer can. But despite these trends the rivalry of metal and glass still dominates the beer packaging scene.

To consolidate their hold on the market, the can-makers have switched from three-piece to two-piece cans, which are cheaper and faster to make, contain less metal, have only one seam and are more pleasant to hold. They have improved the methods of decorating cans both in terms of appearance and "feel."

The industry has also been flexible over its customers' demands for new sizes. From the UK can makers' point of view one of the most daunting developments has been the

popularity of the 16 oz can, which last year represented 68 per cent of all take-home sales.

Considering the glass manufacturers' historic decline, their struggle to retain market share is even more impressive than that of the can makers.

In recent years, their main reply to the can has been the wide-mouthed beer bottle, which is pleasant to drink from as well as to hold.

This year, they have come up with a new range of plastic-sleeved bottles. Both Rockware Glass and Redfearn National have installed equipment to wrap their bottles in PVC sleeves, developed in Japan.

These sleeves enhance the bottle's appearance, its strength and its lightness and should be as successful for Rockware and Redfearn as the polystyrene Plastishield label was for United Glass in the soft drinks sector.

Glass makers, too, have taken a wide range of steps to reduce costs. Most of the large manufacturers are installing large 10-section blowing machines to update their plants' capacity.

Metal v. Glass

MAURICE SAMUELSON

The glass makers are also adjusting their marketing. Having lost so much of their business to the beer can they are increasingly stressing the superiority of glass in terms of aesthetic properties and chemical inertness and its suitability for bottling premium beers.

Like the rest of the packaging industry, though, they realise that their future largely depends on long term economic developments, especially in the U.S.

There, the beer industry last year used more than a third of the 140bn beverage cans and bottles supplied by packaging manufacturers. Two-thirds of the beer containers were metal cans and the rest glass.

Beer also represents the largest glass container market in the U.S., accounting for 36 per cent of the total number of units supplied in 1982. One-trip glass bottles represented 97 per cent of the total, and 78 per cent were in the 12 oz size.

In the longer term, although glass containers face significant competition in the U.S., the next five years are expected to see growth, sometimes at the expense of beer and beverage cans. But it is too soon to say whether this means the tide has been running in favour of cans for 50 years is at last beginning to turn back towards glass.

has become more of a special night-out affair rather than a regular seven night a week event. In such cases drinkers appear not to mind the extra cost of trading up from the cheaper prices in the clubs.

One estimate is that 300 clubs have closed during the past year and about 5 per cent of them are facing financial difficulties. Certainly the large entertainment clubs have collapsed faced with the problem of paying for "star" names on dwindling beer revenues.

One victim of this reversal in the club's fortunes has been the Northern Clubs' Federation Brewery at Newcastle upon Tyne. The Fed is classified as a regional with output in 1981 of some 400,000 mild barrels.

The Fed wanted to expand from its regional base and establish a more national distribution system. It already had several outlets in the South, such as the House of Commons. Brewers were privately worried, but the Fed's attack never materialised. Instead, last year the brewery reduced its workforce by 20 per cent.



Carlsberg

Probably the best lager in the world.

BREWING V

The brewers, in co-operation with Metal Box, Britain's leading packager, have a world lead in a new container material

Breakthrough in plastic beer bottles

THE TRADITIONALLY conservative image of Britain's brewers has been broken by the way they have taken a world lead in use of PET bottles. Although first introduced in the U.S. for soft drinks, this bright, robust material — polyethylene terephthalate — is now being widely used for British beer thanks largely to co-operation between the brewers and Metal Box, Britain's biggest packaging company, which developed the world's first such beer bottles.

Launched less than two years ago for beer, PET is expected to hold 5 per cent of the take-home trade by October, having already overtaken, in terms of volume, the metal party can. Most major British brewers have turned to PET, which is now used for about 25 brands of beer. The packaging industry expects to sell about 200m bottles this year in the UK and Metal Box is already dealing with inquiries from overseas. Its only competition comes from Fibrenyle, part of BAT Industries' subsidiary, Mardon Packaging International. In adapting PET for beer, the packaging and brewing industries were responding to the factors which had already made this material a major force in the carbonated soft drinks bottling industry. In little more than four years in Britain, PET soft drink bottles have overtaken one-trip glass containers in terms of the volume packaged and moved into the second place after cans. It has also been snapped up by the cider industry, which is heavily reliant on glass. Its advantages are its light-

PET Preference

MAURICE SAMUELSON

The alternative solution was to coat PET with an oxygen-proof barrier which would not affect the quality of the beer. The coating used by Metal Box is a polyethylene oxide later (PEOX), developed by the Fibren division of Imperial Chemical Industries, Britain's sole manufacturer of PET granules and one of the leading international suppliers. The coating is applied by Metal Box at its plastic bottle factory at Wrexham, North Wales. In order to guard a valuable commercial advantage, as well as its continuing efforts to improve its processes, Metal Box keeps a veil of secrecy over the section of the Wrexham plant where coating is carried out. But although development is



A selection of beers and lagers bottled in PET.

still continuing brewers are already satisfied with the shelf life of at least five months.

The major technical problem facing the brewers themselves was that, unlike cans and glass bottles, PET is not suitable for pasteurising the beer inside the bottle. The beer thus has to be flash pasteurised before filling, then filled through sterile bottling lines.

When the Fine Fare supermarket chain asked Watney Mann for beer in PET, Watney Mann was eager to help but pointed out that, like most UK breweries, it did not have a flash pasteuriser and that it used the slower tunnel process which is unsuitable for PET.

Watney turned therefore to the independent Davenport Brewery of Birmingham, one of only four or five UK breweries with flash pasteurising lines. Davenport had installed the first of its three flash pasteurisers in 1959 because it was cheaper and more compact than a tunnel pasteuriser. It thus became the third partner in the process which led to the commercial success of beer in PET. Through its Wilson Brewery, Watney Mann, brewed the beer and sent it by tanker to Davenport, which flash pasteurised it and packed it in Metal Box bottles and with closing machines also supplied by Metal Box.

The first bottles appeared in a limited number of Fine Fare stores in North East England at Christmas, 1981, and since then PET's advance into the beer market has proved unstoppable, with almost every week bringing news of new labels in 14 or 2 litre bottles.

Watney Mann, impressed with Fine Fare's success, began selling two litre PET packs of its Wilson's Great Northern Bitter and Top Brass Lager last Christmas. It has subsequently introduced PET for nationwide sales of some of its "flagship"

Watney brands. Other breweries using PET include Whitbread, Scottish Newcastle, Allied Lyons, and Coopers, Thakston's, Vaux and Cameron's. Davenport, too, has since ceased to be simply a contract filler, and now bottles its own Jager Lager in PET.

The list of sizes where beer is filled has also lengthened. Some of these brewers, such as Whitbread, are having their beer contract filled by Davenport. But separate filling operations have also been installed by Vaux, Allied Lyons and RHM (which fills for Thakston's and Cameron's). In addition to cider, Bulmer is filling beer for Watney.

Unlike beer, cider does not require a coated PET bottle, and the first alcoholic drink packed in PET was Bulmer's Cider, using Metal Box bottles — made from ICI's "Mellinar" polymer.

Just as cider and beer followed soft drinks into PET, so they in turn may be followed — though far more cautiously — by spirits. MacKinnon's Old Scotch whisky recently became the first — and so far only — scotch to go into PET.

It is being supplied in miniatures for in-flight consumption on airlines, for whom the major attraction is its lightness. (The bottles are made by United Glass which, like Metal Box and other packaging companies, recognises PET's threat to other traditional containers and is involved in it as a defensive operation).

For beer and other beverages, PET is likely to be used mostly for the large 1- to 2-litre containers and to make little early impact in the volume market for smaller bottles. For soft drinks, this is because the smaller bottle the greater the loss of carbonation. For beer, it mainly reflects the price premium of PET compared with the smaller cans and glass bottles.

The battle for the retail market has put capital investment at low priority

Recession limits plant outlays

OVER THE last few years, the recession-hit UK brewing industry has, understandably, become preoccupied with ways of improving beer consumption, rather than production. Such a climate is not the most conducive to new brewery equipment developments.

Brewers, however, continue to show an interest in technology which promises to reduce production costs and improve efficiency. Thus there has been a certain amount of activity in energy conservation and the application of microelectronics to brewery operations. But cash constraints and the switch to retail investment has meant that the level of activity in this field has not been as high as might have been expected in former times of buoyant beer sales.

As the 1980 NEDC report on brewery microelectronics pointed out, the new technology is best designed into new projects, as conversion of existing facilities can be costly and difficult. Since then there has been a dearth of new brewery projects, although whenever any have taken place, microelectronic control has been the rule rather than the exception. This is particularly true in areas such as in-place cleaning and packaging.

Nonetheless, doubts exist about the positive benefits that the microchip can bring to some parts of the brewing process. For example, conventional semi-automatic control already allows a brewer to operate with low manpower levels. And while the microcomputers themselves may be reliable, there is felt to be a lack of reliable in-line sensor equipment with which to measure certain parameters.

Scotish and Newcastle Breweries, though, has little doubt about the benefits of microelectronics in brewing. The Edinburgh-based concern claims to have over 100 microprocessor-controlled brewery operations at its various plants. The newest of these, the bulk packaging complex at Tyne Brewery in Newcastle, has microprocessor control of product routing, vessel filling, emptying, filtration, in-place cleaning and container handling and filling. The control systems were all designed by Canongate Technology, a new company set up by Scotish and Newcastle to market its elec-

tronic and engineering expertise to the outside world. One of its first successes has been a device to monitor and control carbon dioxide levels in liquids. A good example of recent British know-how on computer control applied to brewing on a grand scale is the fully-automated brewhouse of Bellemore Brewing at La Crosse, Wisconsin in the USA. In fact, this plant which came on stream last year, is also a good example of British brewery engineering, for it is one of the largest and most up-to-date brewhouses in the world today.

Equipment

BRUCE STEVENS
Editor, Brewing and Distilling International

The 10m U.S. barrels/year facility was designed and built by Robert Morton DG of Burton on Trent, and the software for the computer control programme was written by Taylor Instruments of Stevenage, in collaboration with Morton. The whole brewing process, from raw materials intake through to transfer of product to fermentation, is controlled by a central computer, backed up by a second identical computer. It automatically monitors and controls 34 production sequences and 20 in-place cleaning steps.

Interestingly Morton has also become involved at the other end of the brewing scale — mini-breweries. Small-scale brewing, often in pubs, has been the one growth area in brewery equipment, and there have been a number of developments in the field, including a microprocessor specially designed for mini-brewing. One specialist in the field, Bruwel, has even managed to sell a tiny lager brewery to a German concern in Bavaria (in brewing terms, this is rather like selling snow to the Eskimos).

Microprocessors lend themselves well to beer packaging operations, in providing conveyor and machine speed synchronisation to maximise filling capacity. Also, they are useful diagnostic tools in determining inefficiencies in bottling and canning.

There are a number of examples of their use in beer packaging, most recently in the 42,000 bottle/hour bottling line installed last year by H. Erben at Courage's Berkshire brewery and in the large key washing and filling plant supplied by Burnett and Rolfe to Bass Alton Brewery in Hampshire.

Possibly the activity in which brewers, big and small, have used computer technology to greatest effect is in warehouse and retail outlet stock control and order processing. A recent extension of this idea is the monitoring of draught beer container movements out in the pub and club trade.

This has been the subject of a joint study by the Brewers' Society, NEDC and Courage Eastern. The aim is not only to provide a more efficient use of draught beer containers, it is also a means of reducing the enormous losses — estimated at over 15m a year — incurred by brewers through the theft of aluminium casks and kegs when they are out in the trade.

A regional brewer, Home Brewery of Nottingham, has already developed such a scheme independently and this is now operating on casks and other containers. It uses a bar code fixed to the beer container, which uniquely identifies the cask. Microprocessor-based scanning devices (including hand-held versions carried by draymen when they deliver to retail outlets) keep a record of exactly where a container is located. They interface with a central microcomputer in the warehouse so that an overview of cask distribution can be made daily.

In the late 1970s the brewing industry set itself a target of reducing its total energy consumption by 20 per cent over a four year period which ended last year. Latest reports suggest that the industry fell short of this target, although it has still achieved a commendable reduction of around 15 per cent. The shortfall was caused in part by the decline in beer output, which has adversely affected individual plants' energy efficiency. It is also due to investment constraints producing less energy-cutting schemes than originally hoped for.

This is in spite of Government cash incentives via ETSU (the Energy Technology Sup-

port Unit). So far only one "demonstration project" has been set up — waste heat recovery in keg racking at Scottish and Newcastle in Edinburgh. This compares with six projects each in the distilling and malting industries (two of the latter projects involve the innovative use of heat pumps, which is the subject of an ETSU symposium next month).

Dr Leslie Malkin of ETSU reports that there have been 17 replications, so far, of the one completed brewery project, which is the subject of an ETSU symposium next month.

Dr Malkin also reports that more brewery demonstration projects are on the way. They include a scheme for recovering heat (in the form of hot water) from brewing copper vapours. The system, incorporating insulated water storage, links up with the boilerhouse and is being installed, later this year, by Ind Coope Alton Brewery in Scotland. Payback is estimated at just 10 months.

Another brewer is currently carrying out feasibility studies for ETSU which may eventually result in a demonstration project. They are looking, generally, into ways of making better use of the heat lost up chimneys, through effluent discharges and from cooling towers.

One of the largest consumers of energy in the brewery is wort boiling, and ways of reducing this are receiving interest from a number of quarters. They revolve around increasing temperature and pressure to reduce boiling time. One problem is that the quality of the resulting beer can change, and this is a subject being investigated by the Brewing Research Foundation in Nuthfield.

A high-temperature wort boiling system, which claims to overcome this problem, and provide the energy-saving advantages, has been developed by a German brewery engineering company, Anton Steinecker. A production-scale version of its system has recently been installed at Greenall Whitley's Warrington Brewery. This is producing both bitter and mild ale worts and is claimed to produce 80 per cent saving in steam consumption.

Local Hero.

Ten years ago, Watney Mann & Truman was everyone's idea of the big national brewer.

Today, the picture is very different and we're seen as a champion of traditional values and local beers and customs.

It's a mantle we're happy to wear and one that (immodestly) we feel we deserve.

Returning the pub to the community

We're nostalgic about the days when the pub was the centre of a neighbourhood's social life.

But we're not simply sentimental about the past; we're putting our money where our nostalgia is.

Last year, we spent millions of pounds on our pubs, improving their facilities but making sure they retained their individual character.

In our book, the local ought to be local.

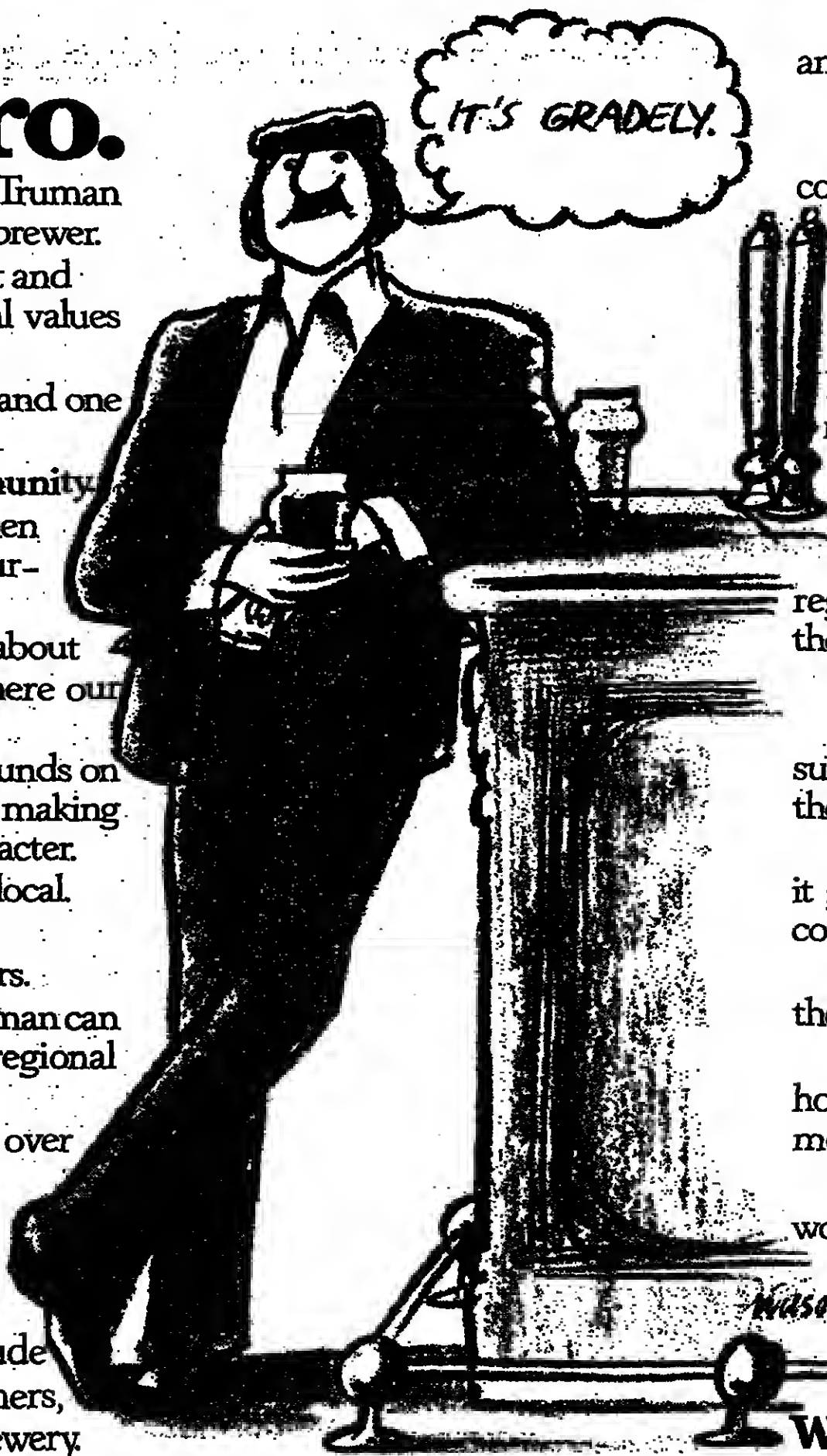
The regions rule OK.

It's a view we also share about beers.

These days, Watney Mann & Truman can best be described as a federation of regional brewers.

There are nine of them in all with over 2,000 years of brewing experience between them.

Geographically, they range from Drybrough & Co in Scotland to the Phoenix Brewery in the South and include such famous names as Wilsons, Ushers, Manns, Websters and the Norwich Brewery



(Not to mention Watney Combe Reid and Truman in London.)

Local Bitters.

Between them they produce 20 cask conditioned bitters, all brewed to satisfy local tastes — beautiful beers like Watney's Stag Bitter in London or Websters Yorkshire Bitter in Halifax.

We've been pleased to see how our cask bitters have been increasing their share of the market quite dramatically.

It's been a similar success story, too, for our range of lagers.

And there we're happy to say our regional brewers have been keen to share in the growth of our national brands.

The Australian for Lager.

Fosters has been an outstanding success and is now being launched throughout the country.

Together with Carlsberg and Holsten it gives us the strongest lager portfolio in the country.

And our customers a wonderful choice at the bar.

(They also get a wonderful choice at home because our take home company did more business than any other last year, too.)

We think we've got the best of all possible worlds.

Big national brands with real local strengths.

Happily, our customers seem to agree.

Watney Mann & Truman Brewers.

by the best in the world

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[illegible]

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Intervention becomes a talking point

BY COLIN MILLHAM

Central bank intervention prevented the dollar from continuing to rise last week. This was probably the major talking point during an otherwise fairly quiet period, with Mr Paul Volcker, chairman of the Federal Reserve Board, and Mr Donald Regan, U.S. Treasury Secretary, apparently at odds about the benefits of attempting greater control over the foreign exchange. Mr Volcker indicated that the Fed is in favour of some intervention, and it almost certainly entered the market during the week as the agent of the German Bundesbank. On the other hand Mr Regan was quoted as saying that the Administration feels intervention is futile. None the less, the market became much more aware of the possibility of orchestrated central bank intervention, while an official of the Japanese Finance Ministry said that the major world economies have up to \$300bn available to prevent excess movements in exchange rates.

EMS EUROPEAN CURRENCY UNIT RATES

ECU central rate	Current rate	% change from central rate	% change from previous week	Divergence limit %
Belgium Franc	40.337	+0.000	+0.000	+0.000
French Franc	6.5596	+0.000	+0.000	+0.000
German Mark	2.3636	+0.000	+0.000	+0.000
Italian Lira	2036.27	+0.000	+0.000	+0.000
Netherlands Guilder	3.6033	+0.000	+0.000	+0.000
Portugal Escudo	200.482	+0.000	+0.000	+0.000
Spanish Peseta	166.639	+0.000	+0.000	+0.000
Swiss Franc	2.0	+0.000	+0.000	+0.000
UK Sterling	7.4603	+0.000	+0.000	+0.000

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

Apr. 25	£	\$	Notes Rates
Argentina Peso	118.561/118.571	76.440/76.450	26.60-26.80
Australia Dollar	1.7550/1.7550	1.5500/1.5500	76.40-76.40
Brazil Cruzeiro	481.945/481.945	446.55/446.55	16.45-16.45
Canada Dollar	1.2500/1.2500	1.2500/1.2500	11.50-11.50
Denmark Krone	8.46/8.46	8.46/8.46	11.50-11.50
Finland Markka	5.9460/5.9460	5.9460/5.9460	11.50-11.50
France Franc	6.5596/6.5596	6.5596/6.5596	11.50-11.50
Germany Mark	2.3636/2.3636	2.3636/2.3636	11.50-11.50
Greece Drachma	127.57/127.57	82.70/82.70	3.77-3.77
Hong Kong Dollar	10.55/10.55	6.810/6.810	23.35-23.70
India Rupee	159.10/159.10	65.10/65.10	5.55-5.70
Indonesia Rupiah	1,678.00/1,678.00	1,678.00/1,678.00	1,678.00-1,678.00
Japan Yen	163.60/163.60	163.60/163.60	11.00-11.10
Kuwait Dinar	4.0250/4.0250	4.0250/4.0250	11.00-11.10
Laos Kip	75.40/75.40	48.14/48.14	11.00-11.10
Malaysia Ringgit	3.5670/3.5670	1.5500/1.5500	11.00-11.10
New Zealand Dollar	2.04/2.04	1.5150/1.5150	11.00-11.10
Philippines Peso	5.5000/5.5000	5.5000/5.5000	11.00-11.10
Saudi Arabia Riyal	5.5000/5.5000	5.5000/5.5000	11.00-11.10
Singapore Dollar	1.3660/1.3660	1.3660/1.3660	11.00-11.10
South African Rand	1.6850/1.6850	1.0310/1.0310	1.534-1.554
U.A.E. Dirham	5.6720/5.6720	5.6720/5.6720	11.00-11.10

* Selling rates.

THE POUND SPOT AND FORWARD

Apr. 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.5460/1.5510	1.5465	0.70-0.125 pm	1.12	0.40-0.35 pm	0.57
Canada	1.8950/1.8970	1.8960	0.20-0.10 pm	0.55	0.45-0.35 pm	0.43
Norway	4.25-4.26	4.254	2-1-10 pm	5.28	5-4-10 pm	4.83
Denmark	75.20-75.20	75.20	2-1-10 pm	5.28	5-4-10 pm	4.83
Belgium	13.42-13.43	13.425	2-1-10 pm	5.28	5-4-10 pm	4.83
France	11.90-11.91	11.905	2-1-10 pm	5.28	5-4-10 pm	4.83
Germany	3.77-3.78	3.775	2-1-10 pm	5.28	5-4-10 pm	4.83
Italy	191.00-191.00	191.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Spain	200.00-200.00	200.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Portugal	200.00-200.00	200.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Switzerland	2.00-2.00	2.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Sweden	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Norway	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Denmark	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Belgium	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
France	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Germany	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Italy	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Spain	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Portugal	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Switzerland	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Sweden	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Norway	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Denmark	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Belgium	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
France	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Germany	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Italy	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Spain	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Portugal	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Switzerland	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
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Sweden	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Norway	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Denmark	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
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France	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Germany	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Italy	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Spain	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
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Belgium	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
France	11.00-11.00	11.00	2-1-10 pm	5.28	5-4-10 pm	4.83
Germany	11.00-11.00	11.00	2-1-10 pm	5.28		

FINANCIAL TIMES SURVEY

Saudi Arabia

After 10 years of hectic and sometimes ill-considered growth the kingdom is embarking on a period of consolidation. The Government, already under pressure from external events, faces some difficult decisions, but many Saudis believe the long-term effects will be beneficial

By ROGER MATTHEWS, Middle East Editor

SAUDI ARABIA'S powerful religious establishment and the potentially influential liberal intelligentsia — the two key strands of Saudi society which may be seeking to move the country in opposing directions — give every indication of being united on the vital domestic issue facing the kingdom in 1983. They both welcome the glut of oil on world markets and believe its impact on the kingdom should be beneficial.

After a decade of hectic and sometimes ill-considered economic growth, they argue the need for an externally imposed breathing space during which the Government is forced to reassess the physical, social and political development of the state.

This mood of critical self-examination was in part encouraged by oil production policy following the outbreak of the Gulf war in September 1980. Saudi oil output climbed to over 10m barrels a day, a level far in excess of the kingdom's requirements. While Saudi Arabia's willingness to compensate for the loss of oil from Iran and Iraq was appreciated in the industrialised world, the parallel amassing of yet more substantial foreign reserves caused growing unease among some sections of Saudi society.

As one leading merchant put it: "We have now come to accept wealth in this country. Very few Saudis have much excuse for not having made money, one way or another, during the past 10 years. But just making still more money cannot be an end in itself. In the longer-term it is probably

unhealthy, especially at government level, because it just encourages spending on projects which frankly we do not need. A setback in government spending will probably cause some strains, but it is far preferable to face this now rather than continue regardless along the road we have been going."

His words should be music in the ears of a Saudi Government faced by what it believes to be harsh choices over maintaining a strong pace of development and running down the country's substantial foreign reserves. The debate over the budget announced in mid-April was anguished by Saudi standards, even though the figures which have been announced probably give little indication of the strategy which will emerge.

With reserves of over \$140bn, the Government can enjoy the luxury of private vacillation. It has time to await international political and economic developments without having to wed itself to a pre-announced programme. An attempt has been made to suggest a mood of financial caution while promising that the five-year plan remains strongly on course.

Dramatic

The pace of development in the kingdom is already slackening but the impact on the public is proportionately far smaller than the truly dramatic fall in the kingdom's revenues in the financial year ending in mid-April. The Government had anticipated revenues of nearly \$92bn. This year the most optimistic forecasts suggest an income of \$65bn, including



King Fahd: on his first year on the throne he would prefer not to have to make politically difficult decisions

Interest payments from investments. The more pessimistic assessments suggest the figure could be closer to \$55bn.

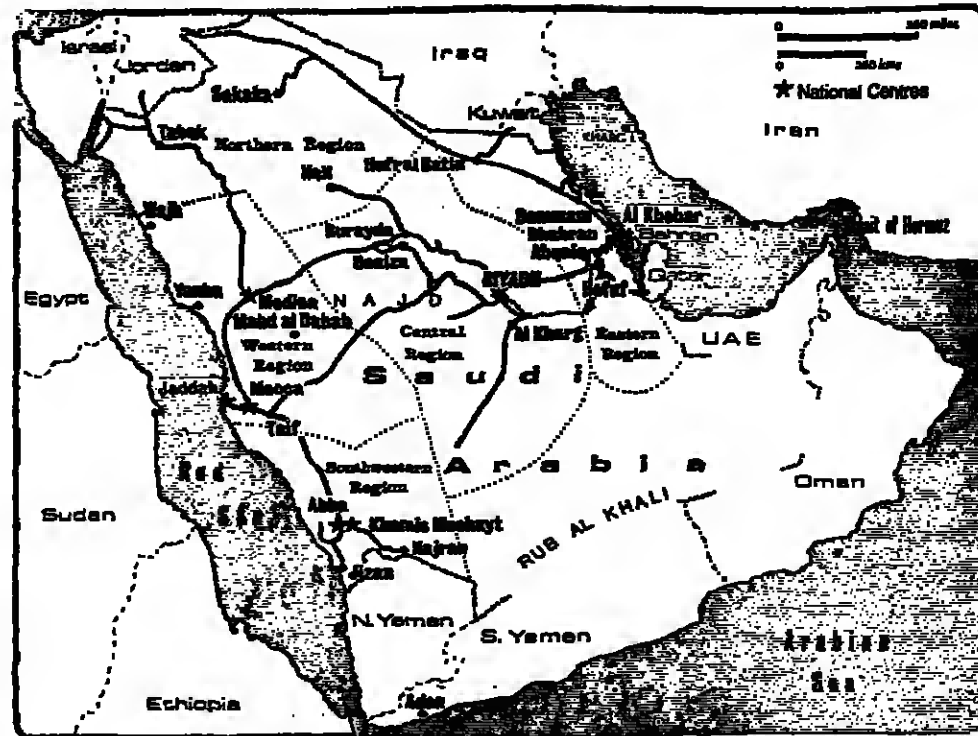
The 1983-84 budget accepts a \$10bn drawing down of reserves, but \$20bn is thought more likely because King Fahd, in his first year on the throne, would obviously prefer not to have to make politically difficult decisions. The extent to which these may eventually be forced on him will depend largely on the pace of recovery in world economic activity and how this will affect oil demand.

Saudi officials wish to believe that demand for Opec oil will pick up in the second half of the year leading to a revival in Saudi production from the current low of about

3.5m barrels a day to nearer 5m b/d by early 1984. Assuming also that the \$29 a barrel reference price can be sustained, Saudi Arabia's budget might be brought back to approximate balance in 1984-85. However, this would still assume a programme of relative financial stringency based on a clearer assessment of the country's requirements.

Western-educated Saudis willingly list a series of measures which they say would have little impact on the public but could produce cuts of between 20 per cent and 30 per cent in government spending. The main hardships, they claim, would fall on foreign companies which have come to rely for their profitability on involvement in Saudi Arabia and on the country's expatriate workforce, a proportion of whom would have to return home. They particularly urge a re-examination of prestige government projects, a slowing in the industrialisation programme, progressive cuts in subsidies on a wide range of basic commodities, the introduction of import duties on some luxury goods and a harder-nosed attitude towards aid disbursements.

Such suggestions probably do more to illustrate the different strands of Saudi society than provide the likely pattern of government action. The House of Saud remains deeply conservative, politically cautious, suspicious of policies on which consensus may be difficult to achieve and reluctant ever to stray far from the traditional tribal concept through which loyalty is owed more to princes rather than to government or



country. The slow sociological development of Saudi Arabia where the strict concepts of Islam also show little sign of losing their grip on public as distinct from private life, is an important brake on policy developments which could imply political change.

The fear of domestic change is inevitably greater at times of regional and international instability. With Israel and Iran both on the rampage during the past two years and attempting to impose solutions to the Middle East's problems through military superiority, Saudi Arabia's vulnerability and inability to exercise much influence on developments has been all too obvious.

Achievements

The creation of the Gulf Cooperation Council in alliance with Kuwait, United Arab Emirates, Oman, Bahrain and Qatar, while a useful achievement, scarcely compensated for the emasculation of Arab unity highlighted so vividly by Israel's invasion of Lebanon and the Gulf war. The close Saudi association with a U.S. Government which was unwilling or unable to check the ambitions of either Israel or Iran, both of which enjoy decid-

ing the Saudi leadership, was made at times to seem even more of a contradiction.

It is risky little to predict that whatever political evolution does occur in Saudi Arabia will be in the long-term detrimental to U.S. interests. The passive attitude of the Saudi Government towards the U.S. last summer when Palestinians were being killed in their hundreds by Israeli forces in Lebanon sits uncomfortably alongside the vigorous diplomatic rebuff to Britain a few months later when it refused to accept top level Palestinian representation on an Arab League visit to London.

Much more understandable is the costly Saudi commitment to the survival of the previously hostile regime of President Saddam Hussein in Iraq. The Saudis are relieved that Ayatollah Khomeini's ambition to replace President Hussein with a Shia fundamentalist regime has so far been blocked by the stalemate on the battlefield. But they still face the daunting prospect of having to finance Iraq's survival for the foreseeable future.

Saudi Arabia is thought to have provided close to \$80bn during the past two years and although future aid will be

limited more strictly to Iraq's war effort, the sums involved are likely to remain substantial. The Government in Riyadh is also well aware that the eventual price of a peace treaty will be the payment of heavy reparations to Iran, a factor which also plays its part in budget strategy.

The pressure of so many external events on the Saudi Government may already be promoting a more collegiate style of leadership with the Cabinet acting more as a committee. There is no sign yet of the mooted consultative council, but neither is there any clear sign that a majority of Saudis feel the need for one. Political prisoners are very few and although there are occasional stirrings among the Shia population in the Eastern provinces, there is no evidence of any serious threat to the pre-eminence of the Saud Royal Family.

However Saudi society cannot be isolated from the world outside and reaction to the world oil glut emphasises how aware some Saudis have become to the challenges and opportunities which are now being presented. They will be disappointed, but not entirely surprised, if the Government fails to respond.

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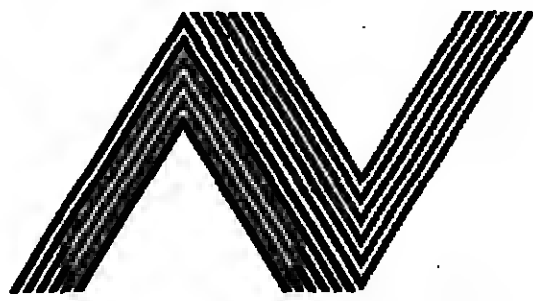
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Loans & Advances	2,042	1,570	+ 30%
Share Capital & Reserves	660	450	+ 47%
Net Income	256	217	+ 18%
Net Income per Share (in Riyals)	171	145	+ 18%
Number of Branches	51	27	+ 89%
Number of Employers	2016	1067	+ 89%

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SAUDI ARABIA II

Richard Johns examines the kingdom's oil policy

Striving to preserve the long-term market

TWO YEARS ago Saudi Arabia was pumping oil at the rate of rather more than 10m barrels a day, nearly 40 per cent of the Organisation of Petroleum Exporting Countries' output at the time and over 20 per cent of the non-Communist world's total. In the first quarter of 1983 its average had dropped to 3.87m b/d, 24 per cent of a greatly diminished Opec flow and 8 per cent of a significantly reduced global total.

The contrast illustrates dramatically its role as "swing producer," one with a capacity only equalled by the Soviet Union, able to raise or lower output in response to fluctuations in supply and demand. It also highlights the previous commitment to realigning prices at a lower level, an objective finally achieved in the autumn of 1981, and now its vital role in the fight to defend the new Opec reference price of \$29 per barrel in March of this year.

Last year Saudi output plummeted by 34 per cent to 6.5m b/d while that of Opec fell by a more modest 22 per cent to a little less than 18.5m b/d. The kingdom's share has, arguably, and in the opinion of other members, been disproportionately high if one takes into account the kingdom's relatively small population and the size of its accumulated assets.

Nevertheless, the sacrifice has been a large one, given its revenue expectations and the level of expenditures to which it has become accustomed. The budget for 1982-83 seemed to imply a rate of production of at least 7.5m b/d, compared with the self-imposed ceiling then in force of 7m b/d.

Saudi disbursements have consistently fallen short of projections—though the gap has been progressively closing—and the scope for cutting back on development spending is considerable. In the event average output since last May, the start of the new Saudi fiscal year, has averaged about 5.5m b/d.

At the outset of the critical Opec talks in London last month which concluded the pact on a collective ceiling on production of 17.5m b/d, individual quotas for member states and the new price structure, Sheikh Ahmed Zaki Yamani, Saudi Minister of Oil, initially held out for an allocation for the kingdom of no less than 6m b/d—apparently on the basis of fairly flexible guidelines from King Fahd.

Damaging

In the event, he agreed to a quota of no more than 5m b/d and committed his Government to bear the brunt of any fall in demand below such a level. As it is, with demand for Opec oil probably not exceeding by much the 15.5m b/d recorded in the first quarter, Saudi Arabia will continue bearing the brunt in the current slack oil market.

Since the damaging price escalation of 1973-74 it has consistently sought to restrain the oil price rises with the result that in 1976-77 and then again for a 32-month period from early February 1979 until the price realignment it was out of line with nearly all other members of Opec. Its resistance to the second 1978-79 price escalation was based largely on considerations of the Kingdom's interdependence with the West. Increasingly, though, it has been preoccupied with ensuring producers do not undermine the long-term market for oil by overpricing the commodity.

In other words, the kingdom wants to maintain demand at a reasonable level and prolong consumers' dependence on it until well into the next century. Its policy is based on the fact that it possesses about a quarter of the world's reserves. Those proven were officially estimated, almost certainly with great conservatism, last year at 162.4bn barrels—or 24 per cent of the total recorded at the end of 1982 by The Oil and Gas Journal in its annual survey.

That would be sufficient to maintain a rate of production of 7m b/d for 83 years. Ensuring demand for oil for as long as possible has become as big a factor behind its moderate pricing policy as concern with the West's economic health. Sheikh Ahmed Zaki Yamani, Minister of Oil, first articulated the policy in public in an address at the University of Dhahran in February 1981. He said: "If we force Western countries to invest heavily in finding alternative sources of energy, they will. This would take no more than seven to 10 years and would result in reducing dependence on oil to a point which will jeopardise Saudi Arabia's interests. Saudi Arabia will then be unable to find markets to sell enough oil to meet its financial requirements."

No less than 98.1 per cent of Saudi reserves were, at the last reckoning, accounted for by the Arabian American Oil Company, which still covers 220,000 square kilometres of the original concession area granted to Standard Oil of California in 1933. Up until the end of 1981 no less than 47 commercial fields had been discovered—30 on-

shore, 14 off-shore, and three straddling the coast line of the Gulf. Included among the on-shore fields is Ghawar, the largest in the world with a length of 150 miles and a width of up to 15 miles. Safaniya is the biggest off-shore field ever discovered. Of the total only 15 are currently being produced.

By contrast to the Aramco area, the rest of the kingdom's proven reserves are concentrated in the Neutral Zone—a relatively modest 490m barrels in the area operated by Getty Oil and 2.435m barrels in the offshore territory worked by the Arabian Oil Company. Aramco's production capacity could be far higher than the level of little more than 11m b/d at which it is now generally rated. The target is being raised under a programme which has been considerably scaled down and subject to a more realistic assessment of what is "sustainable." While priority has been given to the exploitation of associated gas, the aim now is to achieve the technical capability of producing 12m b/d by the middle of the decade through the addition of another 1.5m b/d of capacity to produce medium and heavy oil.

Given most market forecasts, that will give a considerable surplus even by then—as well as the means to adjust the mix of output according to the

upon its accumulated financial assets. As for gas needs, Sheikh Yamani claimed in January that a rate of 4.7m b/d of light crudes—as yet the heavy and medium varieties are not tied into the master gas system—would be needed to meet peak electricity and water demand. It became clear subsequently that he was exaggerating, presumably as part of the process of negotiating Opec quotas.

In practice, as Dr Abdulhadi Taher, Governor of Petroleum, has stressed on several occasions, Saudi Arabia has some capability of switching fuels and has a great deal more under development. He has said that even when the big industrial projects are all on stream in 1985-86, 5m b/d would be sufficient. For the time being, it seems that the kingdom can get by with an Aramco output of in the order of 3.5m b/d provided the higher crudes account for 70 per cent of it.

That has been the ratio traditionally laid down by the Government. More recently the goal has been a 50:50 split when output soared to 10m b/d early in 1980. With the drop in production it reverted to something like 70:30 not the least because of the need to sustain an adequate flow of associated gas.

At the same time, the pro-

DIRECTION OF OIL EXPORTS

(in millions of U.S. barrels)		1976		1977		1978		1979		1980	
Year	Destination	Crude	Refined	Crude	Refined	Crude	Refined	Crude	Refined	Crude	Refined
1976	North America	171	8	509	1	619	4				
	Latin America	490	2	128	3	127	2				
	Western Europe	1,285	12	1,082	15	1,432	26				
	Middle East	23	1	94	1	48	1				
	Africa	31	4	13	2	42	7				
	Asia and Far East	860	100	925	102	1,008	109				
	Oceania	23	5	24	2	46	2				
	Bankers	—	63	—	47	—	31				
	Total	2,939	285	2,612	178	2,275	180				

Source: Petroleum Statistical Bulletin 1980.

REVENUE AND EXPENDITURE

(in millions of riyals)		1976		1977		1978		1979		1980	
Oil revenue		121,191	114,942	115,978	189,295	219,901	237,905				
Other revenue		14,766	15,617	15,427	21,901	23,795					
Total revenue		135,957	130,559	131,405	211,196	243,696					
Total expenditure		128,273	138,048	147,971	188,363	226,579					

Source: Finance and National Economy Ministry

varieties enjoyed by Saudi Arabia—Aramco Light (34 degrees API), the reference of the Organisation of Petroleum Exporting Countries, Berri (39 degrees API), Arabian Medium (31 degrees API), and Arabian Heavy (27 degrees API).

Just how much production Saudi Arabia requires to satisfy budgetary purposes, on the one hand, and sufficient associated gas to feed power stations, water desalination plants and refineries, on the other, remains unclear.

On the financial side there have been two pronouncements on the subject recently. Sheikh Hisham Nazer, the Minister of Planning, who is in the conservationist school, said early in April that Saudi Arabia did not need an output of more than 5m b/d for its economic development. He may not have taken full account of the mounting cost of current expenditure. Sheikh Abdul Aziz Quraishi, who was then Governor of the Saudi Arabian Monetary Agency, said that the rate would have to be in the order of 8m b/d at a price of \$34 per barrel compared to the \$29 to which the Opec reference has now been reduced.

The level would depend, of course, on how far the Saudi Government is prepared to draw

portion of savings by the four U.S. partners in the Aramco operation—Shell, Esso, Texaco, Exxon and Mobil—have fallen.

The main reason was the strict Saudi observance of the \$34 per barrel reference when the actual rates of other producers were being eroded or set at lower levels. Another was the fact that when Saudi crude was cheaper during the 30-month period they had built up relatively bigger inventories than other companies.

Agreement

Of Saudi Arabia's 5m b/d quota under the Opec production agreement the volume assigned to the Neutral Zone is 150,000 b/d each for Saudi Arabia and Kuwait.

Such a rate would be in line with actual output in 1982 when the two states shared an average for the year of 315,000 b/d. The greater part of that—193,000 b/d of 35 degree API, light crude and heavy 28 degree API Kuwait—came from the offshore operations of the Arabian Oil Company, the Japanese-owned concessionaire of both states.

The balance of 120,000 b/d was produced by the onshore venture for which the operator and Saudi concessionaire (with

a 40 per cent stake since 1976) is Getty. Further this year Getty led a suit against Kuwait seeking an injunction against it lifting more than its half share—which it has since 1977. Kuwait claims that it has only been recompensing itself for oil in excess of Getty's share lifted prior to that date.

Saudi Arabia's position as the world's leading exporter was further enhanced with the opening in the summer of last year of the 48 in 170-mile trans-penninsula pipeline, with its 1,550m b/d capacity, from the eastern province to Yanbu on the Red Sea. Maximum throughput could be raised in two stages to 2.4m b/d and then to 3m b/d. The facility considerably shortened the distance to the Suez Canal and the Sumed pipeline for western destinations. No decision on expanding capacity has been taken. In practice, the throughput is believed never to have run at more than 1.4m b/d and has recently been less than 300,000 b/d.

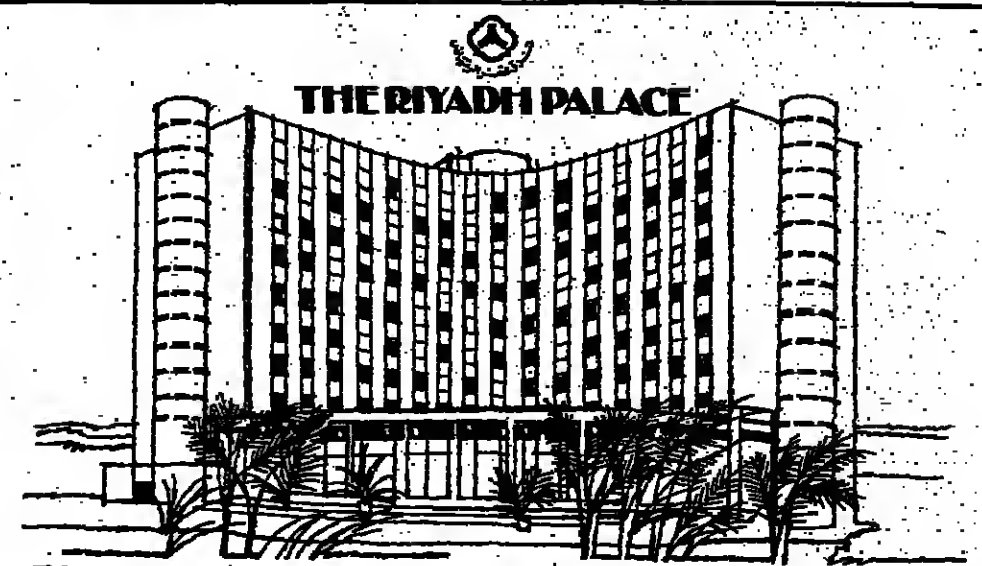
Completion of the three projects will give Saudi Arabia an export-orientated capacity of 25,000 b/d in addition to the Aramco refinery at Ras Tanura which processed 416,000 b/d of crude oil in 1981. Others are being implemented to satisfy rapidly rising domestic demand which is projected as increasing from 580,000 in 1980 to over 1.5m b/d in 1986. Petroleum's refinery at Yanbu is scheduled to go on stream in July 80 per cent of its 170,000 b/d capacity. Two other domestic capacity.

The state oil corporation's Riyadh refinery has run at more than its rated design capacity of 120,000 b/d. Its refinery at Jeddah can produce at nearly 80,000 b/d. But Petroleum has been able to reduce the volume of crude processed abroad for the local market but the volume under current contracts is still in the 110-130,000 b/d range.

Meanwhile, a big expansion of tube oil production promising a considerable surplus for export is in hand or being implemented. The one existing producer, Petroleum, a 71:29 joint venture between Petroleum and Mobil, has a capacity of 1m barrels a year, or half of present domestic consumption. It plans to double capacity.

At Yanbu a 50:50 Petroleum-Ashland Oil project designed to process 1.8m b/y is scheduled to come on stream in 1984.

Others could bring total capacity up to nearly 5m b/y if they go ahead.



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The economy

SAUDI ARABIA III

The fall off in oil revenue is forcing a cutback in public spending. Alec Thomas reports

Getting to grips with a new economic era

FOR THE past 10 years, the motor of the Saudi economy has been government expenditure on construction contracts. Through government expenditure oil revenues have been deployed both to add to the nation's capital by investment in economic and social infrastructure projects and to create consumer demand for a wide range of commodities ranging from cement to office furniture, from foodstuffs to electronics, from industrial machinery to motor vehicles.

At every stage the Saudi Government has sought to ensure that members of the Saudi business community benefited, either as agents putting together contracts, or as agents importing goods and services, or as main or sub-contractors or as shareholders in banks, transport and other service companies. It required no sophisticated foresight to see that the Government could not continue for ever to fuel the economy by expenditures on public-sector construction contracts, if for no other reason than that there is a physical upper limit to the amount of economic infrastructure that any society needs.

Well-equipped

There are just so many Jeddah International airports that a nation can absorb, so many empty multi-storey apartment blocks built with public money to house low-income families who choose to live elsewhere, so many modern and well-equipped Jubail ports handling one or two ships a month.

Long before the impact of a dramatic fall in oil revenues began to dawn on the Saudi business community, ministers and officials were warning that the construction sector would

begin to decline both in relative and in absolute terms. The underlying trends of the changing shape of the Saudi economy were becoming apparent two years ago. In figures released 12 months ago, the Government gave details of GDP at constant 1969-70 prices over the five-year period ending May 1981.

The relative decline of the oil sector, both crude petroleum and natural gas production and oil refining, over the period is not surprising, given the dramatic broadening of the base of the economy. Construction remained the second largest contributor to GDP over the period to 1979, but the relative share of the sector peaked in 1977-78 at 10.9 per cent and since has shown a steady fall, to 7.3 per cent in 1980-81, and transport, most pronounced in the immediate future. The wholesale and retail trade sector has now become the second largest contributor to GDP.

The growth sectors have been the wholesale and retail trade, including hotels and restaurants, contributing 7.3 per cent of GDP in 1979-80 and 12.1 per cent in 1980-81, and transport, storage and communications, 4.9 per cent in 1979-80 rising to 6.3 per cent in 1980-81. Other growth sectors have been non-oil manufacturing, essential services (electricity, gas and water) and the finance, insurance and real estate sector.

Thus Saudi Arabia, like Kuwait and Bahrain, is developing as a service economy, in spite of attempts to broaden the industrial base. Even when the heavy industrial plants now being built in Jubail and Yanbu are fully operational in 1984, the services sectors, transport, storage, communication, finance, insurance, real estate and business services, are likely to remain the most dynamic.

This is not surprising, given the mercantile traditions of the Arabian peninsula, the basic preferences of the people, and the narrow market for much local industrial production, which can only remain competitive behind protectionist policies (subsidies, tariffs and "buy Saudi").

When the Government appeals to the Saudi business community to pick up some of the burden of future development, and to make use of the excellent modern economic infrastructure as well as the capital acquired over the last ten years of sustained and dramatic growth to invest in the future of Saudi Arabia, the great majority of Saudi entrepreneurs look to investment in, for example, management, maintenance and other service undertakings as well as banking and other financial services. Even without a drop in oil revenues, the Saudi economy would have been entering a new phase in the early 1980s. In any

GDP BY ECONOMIC ACTIVITY AT CONSTANT 1969-70 PRICES									
(In millions of riyals)									
SECTOR	1976-77	%	1977-78	%	1978-79	%	1979-80	%	1980-81
Industries and other products except producers of government services	1,282	1.2	1,483	3.5	1,550	4.5	1,639	3.3	1,735
Agriculture, forestry, fishing	1,282	3.2	1,483	3.5	1,550	3.5	1,639	3.3	1,735
Mining and quarrying	1,282	3.2	1,483	3.5	1,550	3.5	1,639	3.3	1,735
(a) crude petroleum and natural gas	19,882	59.1	19,680	46.7	20,112	44.9	21,632	42.5	22,487
(b) other	134	0.3	147	0.4	125	0.3	123	0.3	134
Manufacturing:									
(a) petroleum refining	1,223	3.8	1,591	3.9	1,689	3.9	1,749	3.5	1,718
(b) other	359	3.4	1,103	2.6	1,276	2.5	1,477	3.0	1,711
Electricity, gas and water	414	1.0	546	1.3	725	1.6	948	1.8	1,199
Construction	4,146	10.5	4,582	10.9	4,700	10.5	5,128	10.4	5,461
Wholesale and retail trade, restaurants and hotels	2,881	7.3	2,555	6.5	4,272	9.5	5,249	10.2	6,448
Transport, storage and communication	1,929	4.9	2,367	5.6	2,729	6.1	3,115	6.3	3,353
Finance, real estate, insurance and business services									
(a) Ownership of dwellings	2,275	5.7	2,549	6.0	2,804	6.2	3,034	6.2	3,282
(b) Other	799	2.0	813	2.2	1,072	2.4	1,222	2.5	1,440
Community, social and personal services	413	1.0	470	1.1	534	1.2	611	1.2	699
LESS Imputed bank service charges	38	0.2	144	0.3	197	0.4	250	0.5	315
Sub Total	35,503	92.9	38,812	92.3	41,381	92.3	45,774	92.6	49,395
Producers of government services	2,513	7.1	2,953	7.1	3,130	7.0	3,334	6.5	3,567
GDP in Purchaser's Values	39,318		41,765		44,511		49,108		52,962
Import duties	359	0.9	263	0.6	317	0.7	316	0.6	284
GDP IN PURCHASER'S VALUES	39,668	100.0	42,028	100.0	44,828	100.0	49,424	100.0	53,246

Source: Central Department of Statistics, Ministry of Finance and National Economy, National Accounts.

case, some of the more traditional Saudi entrepreneurs would have been slow to adapt to the new challenge of business in the kingdom, and some of the smaller, less well-managed Saudi companies would have gone out of business. Any slowdown, any period of economic stagnation or consolidation, or even recession which might follow a significant drop in government expenditures will serve merely to

accentuate this underlying trend. But it is by no means certain that the fall in oil revenues will be immediately and automatically translated into a commensurate drop in government expenditures. The Government will seek to cushion the economy by drawing down financial reserves. Saudi ministers and officials have always maintained that the growing financial surpluses, which sometimes were

something of an embarrassment, would be needed one day, probably sooner rather than later, to sustain the domestic economy.

The Saudi Government has not shown any enthusiasm for the Kuwaiti policy of building a long-term portfolio fund for future generations, for example, and has sought ways to keep a sizeable part of its foreign assets in easily marketable instruments.

IMF figures suggest that the foreign assets of the Saudi Arabian Monetary Agency (SAMA) were marginally in excess of \$140bn at the end of 1982. Bank analysts say that this total is broken down roughly as one-third short and long-term bank deposits, one-third longer-term loans to the Japanese, West German and French Governments, for example, and in various Government and corporate bonds, and one-third

in illiquid assets such as IMF contributions, soft loans and loans, for example to Iraq, where early repayment is unlikely.

Bankers' estimates put the total of Saudi private sector, including commercial bank foreign assets at the end of 1982 at about \$35bn.

In the first three months of 1983, SAMA did not renew a number of foreign bank deposits and it is virtually certain that this process will continue. The Government seems also to be managing its cash flow by delaying at least some of its payments to contractors.

In the first quarter of 1983, the "normal" payment delay of 30-60 days had been extended to 90-120 days.

Government agencies were continuing to pay promptly. In any case, past free-spending policies have left a legacy of commitments for on-going projects which are impervious to threats of budget cuts.

A momentum of Government expenditure has been built up which will take more than one year's austerity to slow down. The Saudi Government claims that it has virtually eliminated inflation. Firm domestic policies, strong dollar and tumbling inflation rates worldwide have contributed to this. Contractors bidding for new contracts in the kingdom confirm that the rate of inflation is now for all practical purposes zero. It is not difficult to establish a consensus that the Saudi economy is strong and well-balanced, capable of sustaining a period of both fiscal and balance of payments deficits without undue concern. Many businessmen and bankers in the kingdom claim to welcome a probable period of consolidation, with a shake-out of weaker firms and the elimination of the extremes of extravagance. The gradual removal of Government expenditures as the prime mover of the economy can only have longer-term benefits and encourage progressive Saudi entrepreneurs to be innovative.

Favoured

In this, they will be favoured by the treaty on economic co-operation now being implemented by the six Governments of the Gulf Council for Co-operation (GCC). The GCC economic treaty is more related to the development of a service economy in the region of the Gulf than it is to a manufacturing-based regional economy. Thus new business in Saudi Arabia will gradually cease to be interested to the point of obsession with new Government contracts, and become more and more interested in using Saudi Arabia's excellent infrastructure and very substantial capital base to create regionally oriented investment opportunities in service industries.

IMPORTS FROM MAJOR INDUSTRIAL COUNTRIES

(In \$m)		1980	1981
Total		7,330	5,856
U.S.	5,769	7,330	
Japan	4,801	5,856	
W. Germany	2,358	2,738	
UK	2,465		
Italy	2,104	2,206	
France	1,457	1,848	
Belgium	525	671	
Netherlands	1,096	1,077	
Switzerland	634	608	
Austria	106	188	
Sweden	485	516	
Denmark	142	170	
Norway	26	22	
Canada	267	382	
Total	22,299		

Source: IMF



Roundabouts drilling for oil: the dramatic broadening of the base of the economy has put oil in relative decline but it is still the life blood of the kingdom.

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SAUDI ARABIA IV

Richard Johns reports on developments in gas exploitation

More projects in the pipeline

THE first phase of Saudi Arabia's Master Gas System, completed last year ahead of schedule and at the cost of some \$10bn, constitutes the biggest single project undertaken in the kingdom. But it has not harnessed all of the gas produced in association with oil. Nor has it reduced the Kingdom's vulnerability to a big drop in oil production of the kind witnessed over the past year. Thus, quietly and without any announcement, the Government has proceeded with two other important projects which will bring Saudi Arabia closer to fulfilling a much greater gas potential.

First, the Arabian American Oil Company has embarked on the second phase of the MGS which is aimed at exploiting all the associated gas by tying in also the fields producing medium and heavy crude varieties. The project is scheduled for completion in 1985 or 1986 and would give capacity for utilising up to 95 per cent of gas associated with oil production of up to 12m b/d.

Second, it is going ahead with the development of dry gas reserves unassociated with oil production, in the deep Permian Khuff zone. Serious exploration of this strata only started two years ago. The decision to go ahead with the project was taken after a highly promising strike in the summer of last year. The initial plan is understood to involve production at a rate of 500m cubic feet per day in 1985, rising to 1m b/d by 1990.

The extent of the kingdom's reserves of unassociated gas — which no observer ever doubted exist in substantial quantities — is a matter shrouded in some secrecy. At the same time the fact that a serious search

Modest beginning

Exploitation of gas began on a modest scale in the early 1950s with the construction of two injection plants around the northern stretches of the huge Ghawar oil field. A much more significant advance came with the completion in the early 1960s of an NGL plant at Abqaiq and the first liquefied petroleum gas (LPG) units at the Ras Tanura refinery.

The system was further expanded with the inclusion of production and processing facilities at the northern end of Ghawar. Four gas oil separator plants (GOSPs) and a treatment centre subsequently installed to harness gas from the off-shore Berri field.

Completion of the first phase of the MGS means that about three-quarters of gas associated with a production of about 7m b/d could be exploited. At full capacity the system should be able to produce 375m cfd of ethane earmarked as feedstock for petrochemical projects, 20m cfd of methane to provide the raw material for the fertiliser and methanol plants, as well as fuel for basic industries, power generation and water desalination. It also produces 300,000 b/d of natural gas liquids — propane, butane and condensates — for

export; and 3,700 tonnes per day of sulphur, the by-product from the initial process of separation and sweetening.

Other off-shore facilities were also excluded from the first phase which is limited to drawing gas from the on-shore fields. The gas then flows to the new processing plants at Uthmaniyah and Shuqba, each with a capacity of 1.5m cfd. There, impurities such as carbon dioxide and hydrogen sulphide are removed. Methane — the dry gas — is extracted for pumping to the industrial plants and refineries at Jubail with a small proportion diverted to Ras Tanura for hydrocracking at the Aramco refinery.

Nearly half the wet gas liquids flow to the fractionation plants at Juaymah — on the Gulf coast for separation. The ethane is committed for the petrochemical plants at Jubail. The maximum volume of NGL available for export amounts to about 180,000 b/d.

The system is designed to pump a larger volume — about 300,000 b/d — through Petroline to the fractionation facilities at Yanbu where up to 110,000 b/d can be utilised for feedstock and fuel for industries. The full potential for exports of NGL from the Gulf is about 180,000 b/d. In effect, as much as 7.5m tonnes of LPG — propane and butane — is exported from Ras Tanura now on the basis of a production of 6.5m b/d of Arabian Light crude and 1.5m b/d of Berri. From Juaymah and Yanbu the maximum would be 5m tonnes annually from the export output of 6.5m b/d of Arabian Light. Thus, under the first phase of the MGS full capacity is in the order of 16.5m tonnes, rising with the completion of the second phase to 20m tonnes or so.

That, of course, would depend on an oil production of 12m b/d. In the meantime and for the foreseeable future it is hardly conceivable that the production rates for the light crudes will run at a level high enough to give anything like full capacity.

The drop in oil output has led to a proportionate fall in availability of LPG from Saudi Arabia and also an increase in prices. At the turn of the year Petroline had concluded contracts for supplies amounting to 8.5m tonnes in 1983, with 3.35m tonnes accounted for by Japanese customers, which would have presupposed an Aramco production of about 8m tonnes.

With the volume having fallen to about half that level, Petroline had to reduce nominations by 80 per cent from scheduled volumes from the beginning of April.

With the steep rise in spot premiums resulting, Petroline raised the price of propane by \$10 a tonne, to \$280, and that of butane by \$15 to \$270 from February 1 to take into account the situation of tightening of supply.

Pricing formula

It took this action not without standing the introduction in 1983 contracts of a new pricing formula whereby they would be linked to the price of Arabian Light — starting at 85 per cent on the basis of thermal value this year rising to 95 per cent in 1988.

As yet, though, no adjustment has been made to reflect the fall in crude oil prices. The Saudi initiative was generally acceptable to customers because it promised greater price stability regardless of supply fluctuations.

Despite the low level of Saudi production over the past year and the prospect of it continuing, completion of the first phase of the MGS has greatly consolidated Saudi Arabia's position as the world's leading exporter of NGL. They are set to make an increasingly significant contribution to revenue. NGL sales in 1981 were worth \$2.65bn. Dr. Abdullah Tawar, Governor of Petroline, has forecast that they will be worth \$11.64bn by 1987.

But, equally vital for Saudi Arabia is the manner in which the MGS has exploited associated gas for the generation of electricity, desalination of water, and as fuel and feedstock for industry. But here the big question concerns the minimum level of oil production needed as demand continues to sag.

Currently, it seems, the rate required would be no more than 5m b/d when all the big industrial projects have come on stream in 1985-86. In this respect the kingdom has already achieved a large measure of flexibility through the installation of dual and multi-fuel systems for power generation.

The intention is to increase such a capability. But it is officially acknowledged that there could be a shortfall in gas needed as feedstock for the petrochemical industry. That was one reason for the sudden urgency with which Aramco pressed ahead with exploration for dry gas unassociated with oil production and plans for exploiting it.

Carla Rapoport

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THIS MONTH Saudi Arabia

entered the petrochemical industry. A recent shipment of 30,000 tonnes of methanol bound for Japan marked the inauguration of the country's fledgling industry.

In just two years, the country expects to be a full-blown member of the industry — with an annual output of 5m tonnes of petrochemicals — following ten years and a \$11bn investment. The international chemical fraternity, however, has yet to put out the welcome mat.

Indeed, just four months ago Dow Chemical, one of Saudi Arabia's partners in its petrochemical programme, pulled out of the Petrokemya ethylene project at Jubail where it had been a partner of the Saudi Basic Industries Corporation (Sabic). The company cited the huge world-wide surplus of petrochemical capacity as the major reason for its decision.

Sabic, however, insists that it would carry on with most of the project without Dow and that its construction schedule would not be affected.

With world-wide overcapacity in petrochemicals running at between 30 and 40 per cent, it's not hard to see Dow's point. In Europe alone, petrochemical companies are estimated to be losing \$200m a month on their bulk plastics businesses.

In 1976, when the kingdom first began to consider petrochemical projects, and in 1980, when the project was approved, the world chemical market seemed considerably less troubled. In the U.S., for example, ethylene plants were still being constructed in 1979 and 1980. In fact, forecasts in 1976 for the basic petrochemical consumption in 1980 showed demand reaching 400m lb and growing through the 1980s. Continued world-wide recession, however, meant that demand last year in the U.S. was less than 250m lb and plants around the country were being mothballed.

Sweetening

While it is understood that Saudi has responded to the market's condition by sweetening the terms of its agreements with its major remaining partners, Sabic has resisted pressure to scale back its ambitious programme as it continues to take a long-term view on the state of the market.

Despite falling oil prices, its feedstock advantage is still extremely strong compared to those producers who don't have natural gas in their backyard. Further, Abdul-Aziz Zamil, vice chairman and managing director of Sabic, maintains that its partnerships with major chemical companies in this development programme represent a "clear contribution" to the rationalisation and restructuring process of the industry worldwide.

"We have offered 50 per

cent of ownership in our plants to the leading petrochemical companies to make it easier to market these products and to forestall or eliminate any unwanted capacities elsewhere," he said at a conference recently.

The projects are being constructed in the two cities of Al-Jubail and Yanbu. When completed, output of the projects is forecast to take up between 3 and 5 per cent of the world market. Production will include nearly 1m tons of low and high density polyethylene, 300,000 tons of styrene, 250,000 tons of ethanol, 1.3m tons of methanol, 1.3m tons of urea and nearly 2m tons of ethylene.

Requirements

Where will these products go? Abdul-Aziz Zamil says that first the requirements of local industry will be satisfied, accounting for approximately 11 per cent of the output. Second, he says the internal requirements of the joint partners will be met, accounting for a further 25 per cent. The rest will be sold in the world market place with some aid of Sabic's partners.

Chemical industry analysts believe that the Middle East is now enjoying greater importance in Sabic's marketing strategy. For example, relatively buoyant demand for high-density polyethylene, a favoured plastic by the construction industry, in developing countries should mean that at least 70 per cent of the kingdom's output of this product should end up in the Middle East and other markets outside U.S., Europe and Japan.

Mr Michael Hyde, editor of Chemical Insight in London, has projected that Saudi Arabia will export between 5 and 20 per cent of its high and low density polyethylenes to the U.S. and Europe and Japan by 1990. As a result, he forecasts that the kingdom will take only 1 per cent of the LDPE market in the U.S. by 1990 and 0.5 per cent of the HDPE. In Europe, he reckons the final market shares will be 3.1 per cent for LDPE and 1.6 per cent of HDPE.

Even so, analysts point out that the Saudi projects will continue to exert pressure world-wide on prices. Goldman Sachs, the Wall Street bankers, have estimated that capacity for low and linear low density polyethylene would rise by more than 25 per cent between 1981 and 1985, as a result of current Saudi Arabia and Canadian production plans.

Goldman Sachs projects that growth in demand worldwide would have to average 9 per cent per year to soak up this capacity.

Petrochemicals is fledgling industry

Industry

SAUDI ARABIA V

MAJOR OIL REFINERY PROJECTS

All projects under the authority of the Petroleum and Minerals Organisation (Petromin).

	Shareholders	Location	Signature date	Contractor	Completion date	Cost of feedstock	Products (barrels a day)
Petromin Refinery in Riyadh	Petromin 100%	Riyadh	Not applicable	Original work and expansion by Chiyoda	Original refinery started in early 1970s, expansion on stream 1981	Not applicable—all domestic oil product prices are far below world levels	Originally 20,000 b/d of mixed oil products. Now 120,000 b/d. Output is for domestic market
Petromin Shell Refinery Company	Petromin 50% Shell 50%	Jubail	September 1981	Management by Shell, main contractor Chiyoda/Parsons/Techalp consortium	1985	Officially crude will be bought at state selling price. In practice there will be a discount	250,000 b/d of output, including benzene, naphtha, chemical gas oil and fuel oil. Output will be exported
Jubail Lube Oil Refinery (JLOR)	Petromin 50% Chevron 25%	Jubail	Project has come close to signature since it was conceived in mid-1970s, but is now in limbo	Engineering by Lummus. Construction contract not awarded	Not applicable	Not applicable	12,000 b/d of finished lube oils, mainly for export. Other products would be naphtha, diesel and fuel oil, running at about 40,000 b/d
Petromin Mobil Yanbu Refinery Company	Petromin 50% Mobil 50%	Yanbu	1980	Management by Mobil. Engineering, procurement and construction by Chiyoda	1984	Officially government selling price. In practice there will be a discount	250,000 b/d of propane, gasoline, jet fuel, diesel, fuel oil and sulphur, for export
Petromin Refinery at Yanbu	Petromin 100%	Yanbu	Project conceived in 1977 as major expansion of Jeddah refinery. Later transferred to Yanbu	Detailed engineering, procurement and construction by Chiyoda	1983	Not applicable—all domestic petroleum products are sold far below world price	170,000 b/d of LPG, gasoline, kerosene, jet fuel, diesel and fuel oil. All output for domestic market
Petromin Ashland Yanbu Refinery Company (PAYRCO)	Petromin 50% Ashland 50%	Yanbu	Not applicable. No definite decision yet to build project	Engineering and design by Foster Wheeler	2-2½ years	Not applicable	5,000 b/d of lube oils
Petromin Petrochemical Refinery Company	Petromin 50% Petrochemicals 50%	Rabigh, on coast north of Jeddah	Work began in 1980, though formal contract signed only in December 1982	Management by Petrochemicals. Engineering and construction by Shampagregit	1985	Officially crude will be bought at government selling price. In practice there will be a discount	235,000 b/d of mixed oil products, for export
Jeddah Oil Refinery Company (JORC)	Petromin 75% SABIC 25%	Jeddah	Not applicable	All work on this refinery has been done by Chiyoda	Original refinery built in late 1960s and early 1970s. Latest expansion completed	Not applicable. All oil products in Saudi Arabia sold at prices well below international levels	95,000 b/d of mixed oil products for domestic consumption
Petromin Lubricating Oil Refining Co.—LURREF	Petromin 70% Mobil 30%	Jeddah	Contract for expansion signed July 1982	Engineering and construction of expansion by Badger	Original plant completed in mid-1970s	Officially at government selling price, but in practice less	Original plant has capacity of 3,800 b/d of lube oil. Expansion will take capacity to 4,400 b/d. Output is for domestic market

Table compiled by Michael Field.

MAJOR PETROCHEMICALS PROJECTS

	Shareholders	Location	Signature date	Contractor	Likely cost	Completion date	Feedstock	Cost of feedstock	Products tonnes/year	Marketing
Saudi Methanol Co. Known as Ar Razi after scientist of ninth century	SABIC 50% and Japanese consortium headed by Mitsubishi Gas 50%	Jubail	November 1979	Mitsubishi Heavy Industries	\$800m	Now beginning production	Methane	Base price is 50c per million BTU. Gas supplier, Petromin, then gets 50% of profits after they reach 25% return on equity	Methanol 600,000	About 80% to be sold by Japanese, rest by SABIC
National Methanol Company known as Ibn Sina after doctor of ninth century	SABIC 50% and Celanese and Texas Eastern of U.S. 50%	Jubail	February 1981	Engineering by Davy-Power Gas. Main contractor C. F. Braun	\$400m	1985. Design engineering now nearly complete. Construction in very early stage	Methane	Base price is 50c per BTU. Gas supplier, Petromin, then gets 50% of profits after they reach 25% return on equity	Methanol 650,000	About 80% of output to be sold by American partners
Saudi Yanbu Petrochemical Company (YANPET)	SABIC 50% Mobil 50%	Yanbu	April 1980	Bechtel	\$2.5bn	1985	Ethane	Base price is 50c per BTU. Gas supplier, Petromin, then gets 50% of profits after they reach 25% return on equity	Ethylene 450,000; Ethylene glycol 200,000; low density polyethylene 200,000; high density polyethylene 90,000	Most products will be sold by Mobil
Saudi Petrochemical Company known as Sadaf, meaning Shell	SABIC 50% Pecten (owned by Shell Oil) 50%	Jubail	September 1980	Engineering by three companies—Badger, Braun and Dravo. Main contractor: Fluor	\$2.9bn	1985	Ethane Benzene Salt	Base price for ethane is 50c per BTU. Gas supplier, Petromin, then gets 50% of profits after they reach 25% return on equity	Ethylene 660,000; Styrene 300,000; crude industrial ethanol 250,000; Ethylene dichloride 450,000; caustic soda 380,000	Most output will be sold by Shell
Jubail Petrochemical Company known as Kemya, meaning chemical	SABIC 50% Exxon 50%	Jubail	April 1980	Project managed by Fluor	\$1.1bn	1985	Ethylene— from Sadaf	Related to cost of Sadaf's ethane, plus operating costs and a profit for Sadaf	Low density polyethylene 280,000	Most output, other than amounts absorbed by downstream projects in Saudi Arabia, will be sold by Exxon
Arabian Petrochemical Company known as Petrokemya, meaning petrochemical	SABIC 100% Project was originally a 50-50 Dow Chemical-SABIC enterprise but Dow withdrew in December 1982	Jubail	May 1981 for venture with Dow. Entirely SABIC since December '82	Foster Wheeler ceased to be main contractor when Dow withdrew. New construction contract signed with Chiyoda in December 1982	\$1.5bn	1985. Project is said not to have been delayed by withdrawal of Dow	Ethane	Base price is 50c per BTU. Gas supplier, Petromin, then gets 50% of profits after they reach 25% return on equity	Ethylene 500,000; high and low density polyethylene 180,000	Most ethylene to be supplied to Sbarq
Eastern Petrochemical Company known as Sharq, meaning East	SABIC 50%. Mitsubishi and Japanese consortium operating as Saudi Petrochemicals Development Company (SPDC) 50%	Jubail	May 1981	Chiyoda	\$1.5bn	1985	Ethylene from Petrokemya's ethane, plus operating costs and a profit for Petrokemya	Related to cost of Petrokemya's ethane, plus operating costs and a profit for Petrokemya	Linear low density polyethylene 130,000; Ethylene glycol 300,000	Products will be sold mainly by Japanese

Projects under the authority of the Saudi Basic Industries Corporation (SABIC), which is owned by the Saudi Government. Most of the projects have natural gas as their main feedstock and most of the projects are aimed at export markets.



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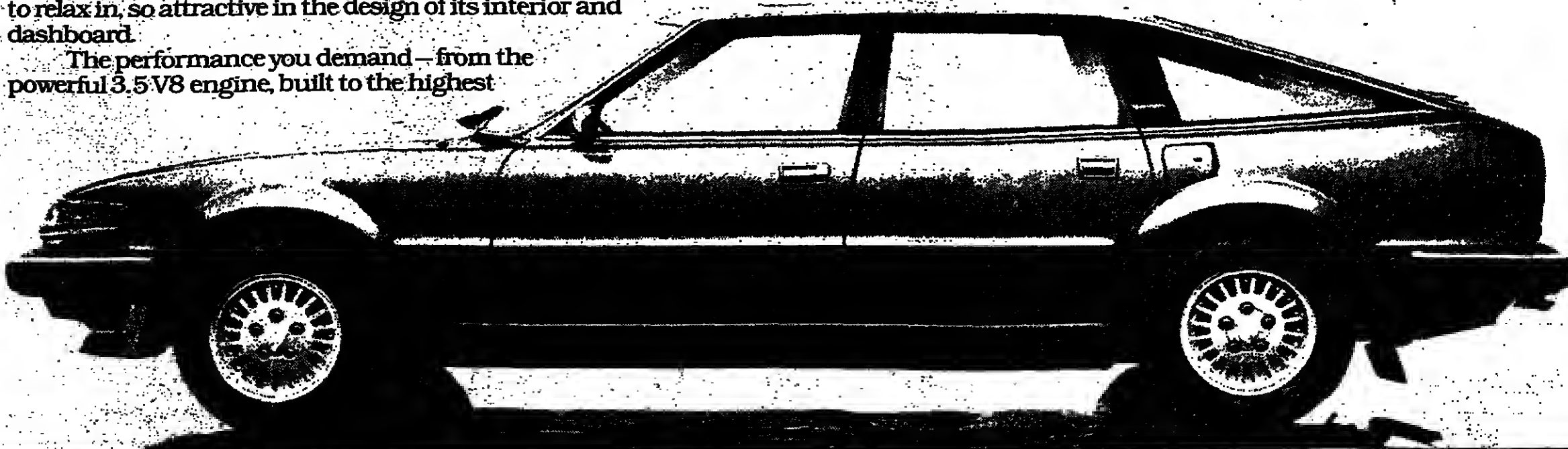
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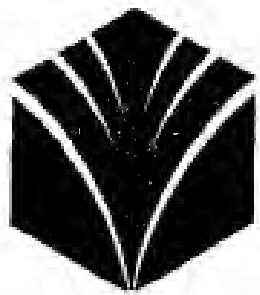
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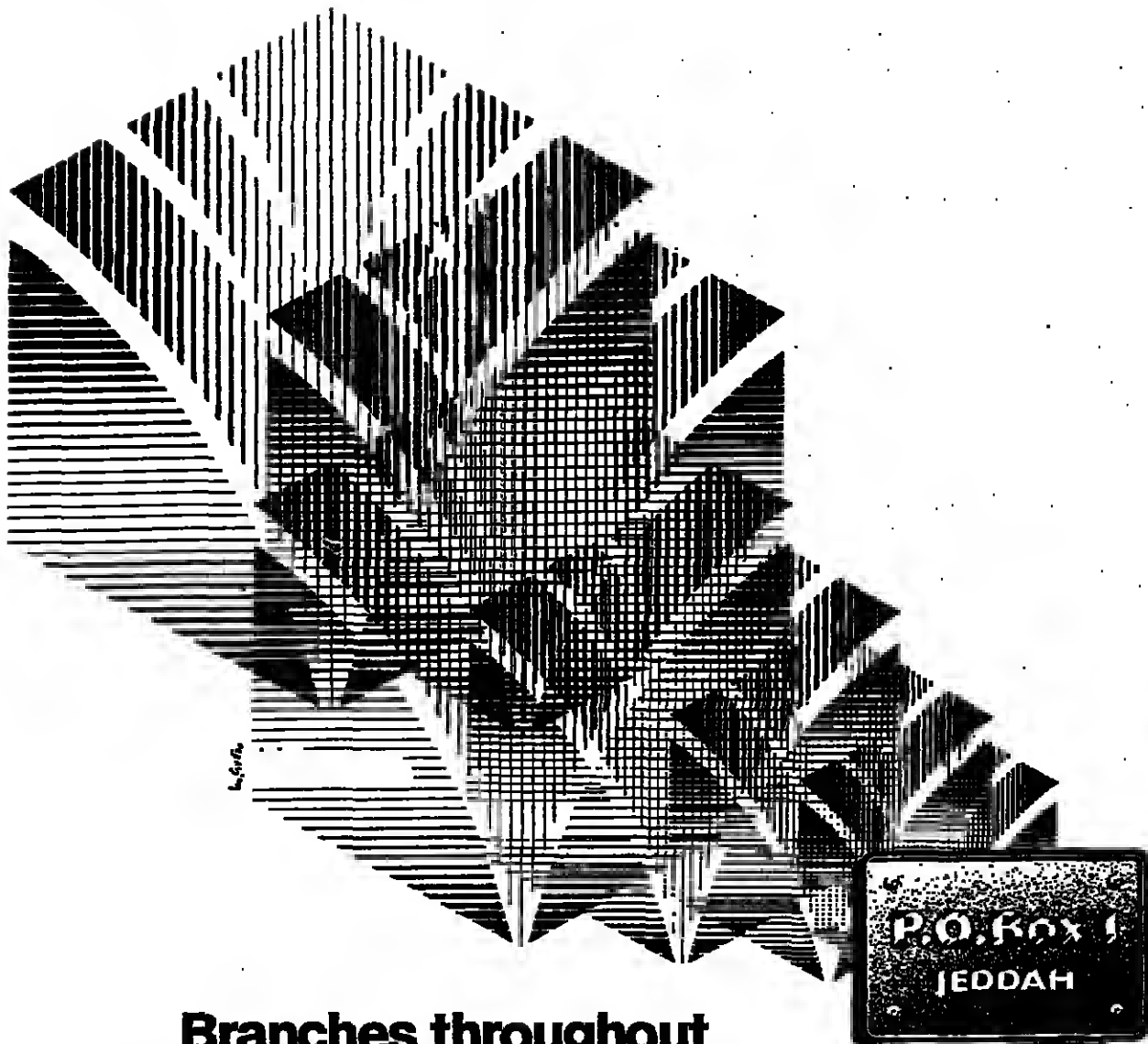
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SABIC has two main objectives:

- i) To develop natural resources of hydrocarbons and minerals and to convert as much of such resources as possible into industrial products.
- ii) To develop Saudi manpower resources capable of assuming the responsibilities of industrialization.

SABIC PROJECTS:

At present, SABIC's major projects are in the field of petrochemicals. Methane and ethane from associated gas will be used primarily as feed-stocks end energy. Industrial complexes to be set up at both Al-Jubail and Yanbu will produce a wide range of the following basic petrochemicals including fertilizer, as well as iron and steel through SABIC Affiliates.

Product	Name Plate Capacity M.T./Y.
Methanol	1,250,000
Linear Low Density Polyethylene (LLDPE)	590,000
High Density Polyethylene (HDPE)	91,000
Ethylene Glycol	550,000
Ethylene Dichloride	454,000
Caustic Soda	377,000
Styrene Monomer	295,000
Crude Industrial Ethanol	281,000
Urea	800,000
Reinforcing Rods and Bars	940,000

These Petrochemical Products depend on a totally local production of 1,850 Million MT of Ethylene. Also, SABIC has through its Affiliates outside the Kingdom of Saudi Arabia (mainly in Bahrain), the following products:

Methanol	330,000
Ammonia	330,000
Aluminium (Ingots and Billets)	170,000
Aluminium Sheets	40,000

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Period of rapid growth in light industry sector ends

The manufacturing estates

"THE PLACE is dead," a banker in Riyadh said recently, with reference to the Saudi Industrial Development Fund. The staff of the Fund itself which was established in the mid-1970s to make low interest loans to industry, are less dramatic in their announcements, but they readily admit that business in the past 18 months has been quiet.

As a matter of policy the Fund has said that it is no longer making loans for building materials for factories because it considers the market for the products of these factories is saturated. From circumstantial evidence it seems that SIFD has also stopped giving loans to cold stores, which were the subject of fairly intense investment activity in the latter part of 1981 and early 1982.

Much of the money disbursed by the Fund recently has gone to finance the various branches of the Saudi Consolidated Electricity Company, which has separate operations in the central, eastern, western and southern areas.

In many ways the Fund is a victim of its own success. Its office income at 2 per cent to cover half of the cost of light manufacturing projects has been so attractive that in the six years between 1975 and 1981 virtually all of the obvious opportunities for private industrial investment in the Kingdom were seized.

Furthermore, the great majority of industrial projects brought on stream in the later 1970s have been profitable. The 600 projects which the Fund had backed by 1980 earned profits in that year of 10 per cent of their total revenues. Some of the biggest and/or most successful companies had revenue running to several tens of millions of dollars. In the following year, 1981, the highly profitable Saudi Plastic Products Company (SAPPOCO), which manufactures PVC pipe in Riyadh, turned over \$62m and the Aluminium Products Company (ALUPCO) in Dammam had revenue of \$35m. The Nisab mineral water bottling company turned over \$10m and the Saudi Agricultural Development Company, which produces eggs in the Kharij oasis, about \$13m.

Success

The basic requirements for success in manufacturing have been quite simple to identify. They are that plants should not be dependent on a highly skilled labour force, that their technology should not need sophisticated maintenance or be vulnerable to the harsh environment, and that the goods they produce should be bulky and expensive to import.

Companies have done particularly well if they have had experience of the marketing of imported versions of their products before they have started manufacturing them. Virtually all companies have benefited in the past few years from the emergence of service and maintenance companies in the Kingdom. In the mid-1970s many had had to buy for themselves machinery which they needed to use only once a month and which in an industrialised country they would have hired.

Among the minority of firms that have done badly the reasons for failure have been varied—and interesting. The most general causes of failure have been poor, unenergetic management and owners who have felt instinctively that once they have built their plants there has been no need for them to "waste" money on employing experienced staff. The desire to economise on staff costs and other operating costs is a very common feature of Arabian industrial (and agricultural) investors. In most cases the costs of repairs and replacements of machinery and the losses of sales far more than outweigh the savings of wages. In part the mentality has been induced by the government's policy of subsidising capital costs in industry and agriculture. This has made capital costs seem relatively unimportant and wage costs, which have to be born entirely by the entrepreneur, something to be minimised.

Another common cause of projects falling has been that partners have not begun with proper understanding of what their different roles would be, either in providing capital or management. In some cases members of the royal family or ex-ministers have taken the major role in arranging the SIFD loan, or loans and subsidies in the case of agricultural projects, and have then claimed that these funds represent their own capital contributions.

On other occasions the princes have promised to obtain some favour for their project but have failed to do so. Often they seem to have overestimated their own pull in the royal family or forgotten that at any given moment there are literally dozens of other princes competing for similar favours. When they have failed to deliver the promised favour they have normally found it

in official Saudi government terminology these estates are known as "industrial cities." This is the same expression as is used for Yanbu and Jubail, which are industrial areas on an altogether different scale. In practice the light manufacturing zones outside the big cities and the main provincial towns have more the appearance and character of estates than of cities.

RIYADH: Area already developed is 4.7m sq metres. A further 6.6m sq metres is now under development. In 1982 374 factories had been licensed for the estate, but not all of them had actually been established. (The same applied to licences given for the Jeddah and Dammam estates.)

JEDDAH: Area already developed 4.6m sq metres. A further 3.6m sq metres is under development. In 1982 licences had been granted for 260 factories.

DAMMAM: Area already developed 5.3m sq metres. A further 4.2m sq metres is under development. In 1982 licences had been granted for 245 factories.

QASSIM: Estate located between Unzai and Buraidah. First phase completed with 0.6m sq metres, two further phases totalling 0.8m sq metres being developed. 26 factories licensed.

HAIL: Estate located at Hofuf. First phase completed with 0.5m sq metres, second and third phases totalling 1m sq metres under development. 8 factories licensed.

MECCA: Single phase

covering 0.5m sq metres under construction, 25 factories licensed but not yet operational.

ASIR: Estate budgeted and at planning stage, to be sited between Khamis Mushait and Abha. The Governor of Asir, Prince Khalid Faisal, has already done much to develop the existing light industrial/workshop area outside Khamis Mushait, by putting in roads, etc., at the expense of the municipality. Small workshop areas—confusingly often referred to as estates—are a feature of all larger Saudi provincial towns.

MEDINA: Estate budgeted and at planning stage. HAIL: Planning of estate by Ministry of Industry expected to begin later this year or next. Governor, Prince Muqrin bin Abdul-Aziz, has already reserved land for the estate. The only industry in Hail at present is a plastic bags and pipe plant, is located in the town's workshop area. It plans to move to the industrial estate when it is developed.

TABUK: Planning of estate by Ministry of Industry expected to begin later this year or next.

NOTE: Areas under development in the estates of Riyadh, Jeddah and Dammam, and possibly in some of the provincial centres, may be reduced as a result of the fall in government revenues and the decline in private sector interest in industry. Development work on the extensions was scheduled to begin in 1982, and in no estate is it yet far advanced.

simpler to defend themselves to their partner than to redouble their efforts.

Occasionally foreign or Saudi partners have tried to cheat each other by doing business "on the side." There have been instances of one or other partner importing materials in quantities greater than needed by the joint venture company and then selling the balance for their own benefit. If they have made a profit they have taken it; if they have made a loss they have put it in the books of the joint venture.

In the last three years both strong and weak managements have had to face several new external problems which have had nothing to do with their own intrinsic abilities. Interest payments on bank loans have become heavier for those companies that have borrowed commercially, and the Government has often been slow in making payments, both for contract work and supplies. There was a case in Qassim recently where the owner of a plant did not have the funds to pay his workers, who were Turkish. A minor riot ensued, in which machinery was broken.

In almost all cases where companies have encountered problems the results have not

been bankruptcies. Manufacturers have stopped operations, paid back their loans and closed their plants. The fact that SIFD loans, and all other government loans to the private sector in Saudi Arabia, are made to the Saudi investors personally and not to their companies has meant that there has been little point in a firm going bankrupt. In effect the Government has prevented bankruptcies by refusing to recognise the principle of limited liability.

A few manufacturers recently have stopped operating their plants, without formally declaring them closed, and are waiting to see if they can win further orders. This is a practical policy when half of a company's capital has cost only 2 per cent.

The few examples of industrial companies failing have had almost no effect on the level of activity in the private industrial sector. The fact that there are now few new companies being launched and very little demand for SIFD loans is caused almost entirely by the lack of immediate easy opportunities for new investment.

Having built most of the factories that the kingdom needs for construction materials, food processing,

furniture and simple plastic goods, as well as a large number of other relatively unsophisticated products, investors realise that the next generation of industries will be more complicated and more expensive. At present they are waiting to define what exactly the second generation of opportunities will be.

It seems that one category of the new plants will produce goods or services that will be needed by existing plants, either private sector light industries or the big process plants that are being built by the government at Yanbu and Jubail.

Another group will use products already being made in the kingdom to produce more sophisticated items. These will certainly be some development of advanced petrochemicals downstream from the basic petrochemical producing plants owned by the Saudi Basic Industries Corporation, SABIC. The advanced petrochemicals plants will be different from existing private sector industries not only in their size and technology but in the fact that they will be geared to export markets and will presumably receive cheap raw materials and fuel. In one way or another their output will be heavily subsidised. The plants will be not so much private enterprises as Saudi Government sponsored joint-ventures between the state and the private sector.

Reduced

While they wait for the new types of opportunity to clarify, and for the petrochemical plants to come nearer to production, the Saudi private investors' hesitation has been increased by fears that the Saudi market as a whole is about to be greatly reduced by a downturn in Government spending.

Almost the only scope for further industrial investment of the traditional simple type may be in the Saudi provinces, where small plants can be geared to purely regional markets and agro-industrial plants can process food produced locally.

At present there are seven industrial estates operating, under construction or planned in provincial cities. Companies on these estates operate, or will operate, on the same terms as companies on the big estates of Jeddah, Riyadh and Dammam.

On all estates the Ministry of Industry provides roads, water and sewerage systems, electricity, telephone connections and an area on which investors can build housing for their workforces. The rent charged for land on the estate itself and in the workers' area is a nominal SR 0.05 per square metre per annum. Electricity costs SR 0.05 per kWh (compared with a price for domestic consumers of SR 0.07). To date no charge has been levied for water but the Ministry of Industry is now intending to install water meters in factories as a first step towards demanding a small payment.

Michael Field



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Industry

SAUDI ARABIA VII

Ending of fuel subsidy deepens shipping gloom

SAUDI SHIPOWNERS were dealt a serious blow recently with the ending of subsidised bunkering fuel, previously supplied by the state-owned Petroleum Marketing Company. The move, announced last December, came as a shock to the owners: a circular letter told them it would take effect immediately.

Saudi-flag vessels had previously paid as little as 5 per cent of the prevailing price, with variations according to cargo and area of operations. The letter provoked an outcry, with one owner of 30 vessels totalling over 700,000 dwt announcing that he would sell his fleet for scrap and go out of business. Others agreed that the move might drastically reduce the profitability, and eventually the number of Saudi ships: contracts had been signed, based on the subsidised rate, for as much as two years ahead.

Meetings between shipowners and Mohammed Elmasri, managing director of Petromin's Jeddah oil refinery, which supplied the cheap fuel, resulted in a complex formula for ending the subsidy in six-month stages. For most vessels, this will mean applying the full price from June 1984, but ships carrying foodstuffs or other perishable goods will have to pay only 60 per cent of the full rate. Vessels operating within the Red Sea, most of which ferry livestock from Sudan, Djibouti and Somalia, were to pay only 30 per cent, but have now been included with the food carriers.

Negotiations

Some shipowners are not satisfied with the compromise and are still speaking of selling their vessels. Others are pinning their hopes on further negotiations before the full international price is imposed.

Extensive documentation will be required before reduced prices are allowed to any vessel. This reinforces suggestions that some of the Saudi flag were one of the causes of the decision to end the subsidy, although Al-Turki, NSCSA's managing director, wants to compete freely in the market without protectionism and to become part of the international shipping community by

necessary. Mohammed Orri, chairman of Saudi International Shipping, claimed that some Saudis, unconnected with shipping, have registered vessels for the benefit of foreign owners wishing to claim the subsidy. He announced his readiness to serve on a committee to investigate abuses, but there has so far been no response from the authorities.

Foreign ships serving Saudi Arabia will indirectly benefit from the ending of the subsidy, but the world recession has hit the whole industry. So far as much cargo as ever is coming to the kingdom (31m tonnes was imported in 1981), but too many ships, having lost their usual business elsewhere, are competing for the Saudi market. Rates are no more than half their peak level of seven years ago. The recent oil price cuts, while giving some relief in running costs, may mean in the medium term that cargo imports will fall as development slows down.

The National Shipping Company of Saudi Arabia was formed as a serious attempt to move into container shipping, which brings in most of the kingdom's imports. Its target, which must be seen as a long-term aim, is to raise the share of imports carried by Saudi-flag shipping to 20 per cent, from an estimated 5 per cent now. NSCSA began with two 23,000 dwt 1,250 TEU container ships sailing between the U.S. and the kingdom; it has recently taken delivery of the first of four new vessels from Kockum AB of Sweden. At 38,500 dwt and 2,000 TEU, they will be the world's largest ro-ro ships, and will operate a Far Eastern service. A North European route is planned for the end of 1983.

Crews on NSCSA's ships are British, Swedish and Sierra Leonean, but the fourth of the new vessels will have extra accommodation for 28 Saudi cadets with classrooms and a conference area. Few Saudis now work on any Saudi-flag ships.

Dr. Abdulaziz Al-Turki, NSCSA's managing director, wants to compete freely in the market without protectionism and to become part of the international shipping community by

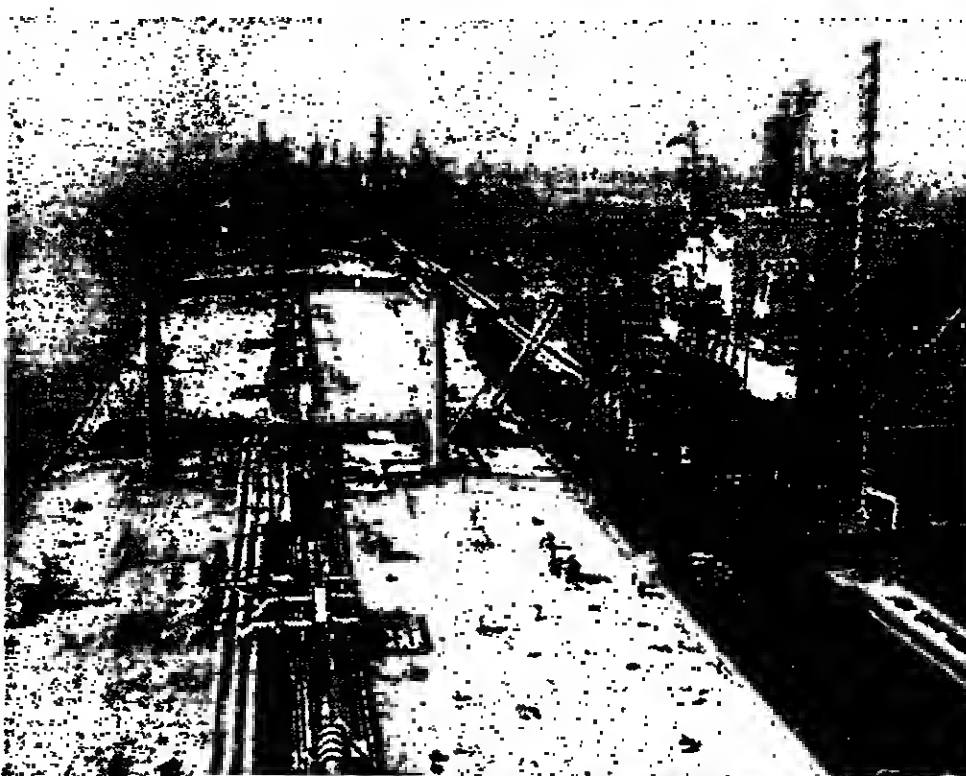
joining conferences of lines. He praises the support the company has received from Saudi importers, the Government, the armed forces and Aramco. The Government now owns 25 per cent of the shares; last year authorisation was given for an increase in the share capital from SR 500m to SR 2bn, and the Government's holding is expected to rise as the capital is gradually taken up. Some board members are believed to be unhappy about the increase in public ownership, and certainly Dr Al-Turki would like more investment from the private sector. But, with firm financial support and the most modern ships and equipment, NSCSA should be well placed to take advantage of the recession's end when it comes.

Efficiency

Saudi Arabia's ports are commonly acknowledged to be among the best equipped, most efficient and cleanest in the world, although only a few years ago 200 vessels queued outside Jeddah while bell-cops unloaded desperately-needed cement. The Saudi Ports Authority under Dr Fayez Badr carried out a massive modernisation and expansion programme: the kingdom's ports now have a total of 124 berths and waiting is unknown. The usual occupancy rate is 70 per cent, with the remaining capacity in reserve for times of peak demand.

Jeddah port alone handled 49,000 containers in March this year, and LCL handling has been introduced at Jeddah and at Riyadh's inland container terminal. Dr Badr believes that too many containers come into the kingdom, especially since all must be returned empty (although NSCSA hopes to export petrochemical products in containers within a few years). Last year containerisation of certain goods was banned; electronic scanners may also be used in future to speed up the rigorous customs examination applied to all imports.

Andrew Craig



Tankers load at a sea island terminal off Ras Tanura

Construction equipment suppliers feel the pinch

WITH THE Saudi economy heading for a major cyclical downturn, the pinch is starting to be felt by construction equipment suppliers after more than three years of unprecedented expansion. Though still one of the largest in the world, the Saudi equipment market will contract significantly in 1983.

The recession has come at a particularly sensitive time. Intense competition has pushed prices in all sectors to rock-bottom levels and many suppliers are operating in the kingdom on the assumption of subsidies in profit margins will be made up for in higher sales volumes. The could be in for a nasty shock.

Sales growth since 1978 has been dramatic in most sectors. Demand has been particularly strong for excavators, mobile cranes, and loaders. The biggest markets, by the number of units sold, would match anything anywhere in the world.

In 1982, probably the peak year for construction equipment sales, more than 2,000 wheeled loaders, over 1,000 crawler

dozers, about 1,000 mobile cranes and approaching 1,500 crawler excavators were delivered to customers in the kingdom.

Almost 100 brands are marketed though less than a handful dominate each market sector. Caterpillar of the U.S. leads the wheeled loader market with about 40 per cent of total sales by the start of 1982, followed by Furukawa and Komatsu, both of Japan.

The positions are reversed in the crawler dozer market, with Komatsu taking the largest share, closely followed by Caterpillar. Demand in this sector has been helped by rising investment in equipment for larger Saudi agricultural projects.

Grove of the U.S. has built a marginal lead in the mobile crane market helped by demand from state-owned Aramco. It is followed by P & H and Tadano, each only a couple of percentage points behind Grove's 20 per cent-plus share.

Crawler excavators is a particularly important sector

because of the enormous volume of pipelaying work being done in towns and cities. Overall leader is France's Poulain, but Mitsubishi and Kobelco have pushed up sales and now probably account for more than 10 per cent of the total sales.

In all sectors, traditional European and U.S. leads have been eroded by the Japanese, aggressive new entrants in the market during the 1970s. In most cases, the contest is two-sided — between U.S. and Japanese equipment manufacturers.

Necessary

To penetrate effectively Saudi equipment markets, it is necessary for exporters to be represented in the kingdom by a well-established trading company. But this is far from being sufficient: agents must have the experience to market construction equipment effectively throughout the kingdom and be able to provide parts and service support to customers.

The largest construction equipment specialist is Jeddah's Zahid Tractor and Heavy

Equipment Machinery Company, agent for Caterpillar. It has, by far, the largest number of staff, and among the most extensive branch networks. Zahid is one of the oldest established equipment distributors and continues to set high standards in business efficiency.

Arabian Auto Agency (AAA), agent for Poulain; A. S. Bugshan and Brothers, agent for Komatsu; Express Contracting and Trading, representing John Deere and others, and International Harvester's agent General Contracting Company (GCC) are all medium-sized companies with substantial staffs and a range of agencies. All have specialised in the equipment market.

A proportion of sales has been done directly between the end user and the manufacturer. The attractions to a potential customer include avoiding agency fees. But the practice may soon come to an end. In the course of 1982, the Commerce Ministry reaffirmed earlier rulings that all state agencies should only do business with Saudi agents. The objective is to improve spare and repairs services and support local companies.

This kind of protection for the agents will be insufficient to cushion the market as a whole from the demand downturn. More than cyclical factors are at work — totally free entry to the Saudi market has led to intense competition among suppliers and discounts on listed prices of up to 25 per cent. In addition, margins have been squeezed because of greater cost-consciousness among customers — most of them contractors facing equally harsh competitive pressures in their own markets.

The squeeze on the contracting market also forced construction companies to take more interest in maintaining and repairing equipment rather than writing it off over the lifetime of an individual contract only. This, plus increasing volumes of secondhand sales, has cut into demand for new equipment, with the result that the market had started to pass its peak well before the oil revenue slump really began to affect the Saudi economy.

In a major survey of the market published in 1982, the Economist Intelligence Unit forecast demand in all but one sector would fall significantly between 1982 and 1986. Its prediction that demand in 1983 could fall up to 30 per cent must now be considered to be fairly optimistic following recent developments in government income and revenues.

This trend could have an impact beyond the confines of the Saudi construction equipment market. The combination of depression in industrialised

countries and boom in the kingdom created an unusually conducive environment for Saudi investment in construction equipment markets since 1978. Three cases of such investment taking place have been identified, and more were expected in the 1980s — that is before the recession really began to bite in the Middle East as well.

The most celebrated of the three occurred in 1982 with the acquisition by Dallah Contracting and Trading Establishment of DM 90m worth of shares in West Germany's IBE. This was quickly followed by a major agreement between IBE and its Saudi agent Beta Company.

It called for a substantial expansion in support facilities for IBE equipment which was to be widened to include Texaco and Hanomag, formerly a Massey Ferguson brand.

Package

Much less aggressive was AAA's decision at the start of the year to take a minority stake in Poulain. This was less specifically aimed at promoting the French company in the kingdom, and formed part of a loan and capital injection package. However, it is one of the most important investments by a Saudi in a leading French manufacturer.

In the third case, EA Juffali and Brothers group — a leading Saudi company which has not taken particular interest in construction equipment — bought \$10m worth of convertible subordinated debentures in Barber-Greene of the U.S.

It is represented in the kingdom by Juffali and is the leading supplier of asphalt finishing and crusher equipment. Again, the arrangement, made in 1981, appears to have been essentially an investment for the Saudi partner and has not had visible impact upon Saudi markets.

The three investments suggested interest was growing in the private sector in investing in foreign equipment manufacturers that were making money out of the Saudi Arabian construction boom.

Some analysts believed they presaged even more ambitious equity buy-outs, and the possibility that Saudi money might be put into troubled plants like IBE was not being ruled out.

The construction downturn, however, will probably mean that returns on supplying the kingdom will sink to world levels. With equipment demand expected to decline closer to normal levels anyway, the attractions of putting money into foreign manufacturers with leading shares of Saudi equipment markets are rapidly fading.

Edmund O'Sullivan

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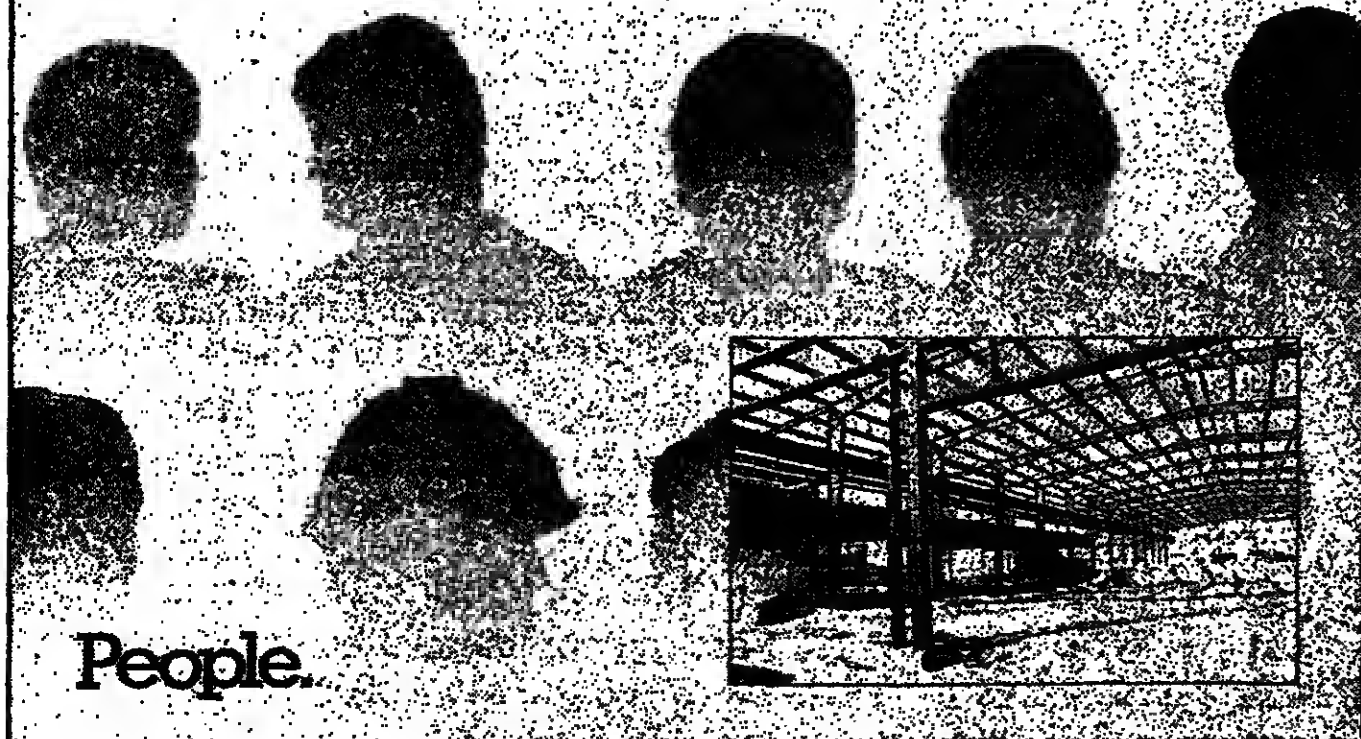
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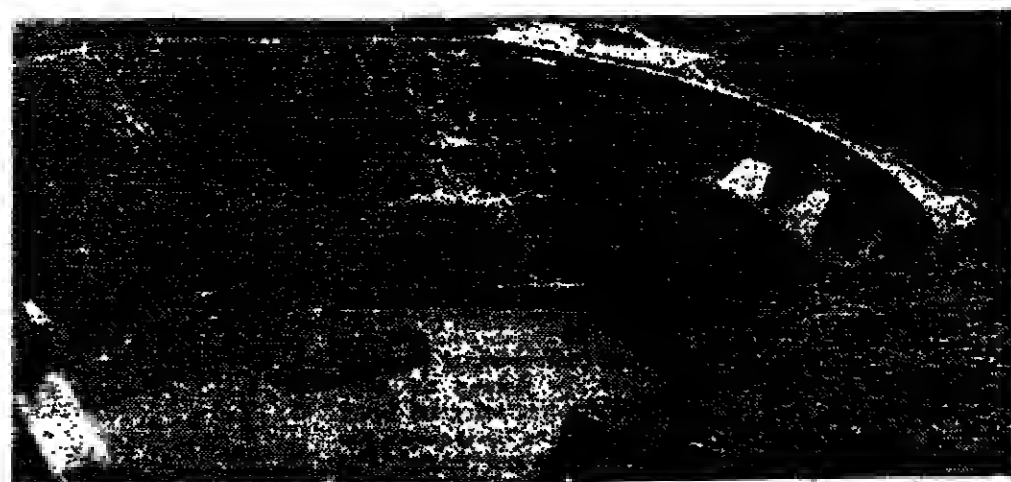
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SAUDI ARABIA VIII

Industry



The Najran Dam, Saudi Arabia's newest and biggest water control project, completed in 1981. The dam was built to protect the oasis in the Najran valley from flooding. It also stores water for release during dry periods.

New emphasis placed on provincial development

WHEN THE Saudi Government in the next few months decides which development projects it will cancel or postpone indefinitely it will try to avoid abandoning schemes which will directly affect the welfare of its subjects in the provinces. If possible it will continue work on small provincial hospitals, schools, agricultural feeder roads, new village housing, water supplies and telephone connections.

Projects of this type absorb relatively small amounts of funds and they are important politically. The people they affect include the Saudi family's staunchest supporters, the townsmen, villagers and bedouin of central Arabia.

The new emphasis on provincial development is not the outcome of any formal regional economic plan. By the time the third national plan, for 1980-85, was drawn up it had become clear that the development of the provinces had become a Government priority—though in a typically Saudi way nobody ever said this openly. The former Deputy Minister of Planning, Faisal Basir, recently remarked that in Saudi Arabia there is no definite plan for anything—one senses things and things move in a certain direction.

The provincial emphasis of the third plan is apparent only in the fact that it contains many more provincial projects than its predecessor did. In practice, since the plan came into operation the Government has launched many more provincial projects than were listed in the document. This disregard for the letter of the plan which again is a typically Saudi phenomenon, has been caused by the unexpected private sector enthusiasm for agricultural investment. This has forced the Government to build vast mileage of agricultural feeder roads.

Under the new regime of more cautious Government spending the main stimuli of provincial economic development will be as follows: continued careful central Government support of infrastructure projects; municipal spending on the development of towns; the building of provincial industrial estates; the construction of military bases; and private sector investment in agriculture.

The development of military cantonments in the past has had a huge impact on the growth of provincial towns. Tabuk and Khams Mushait owe their present prosperity far more to military spending than to any other single factor. The towns of Shazurah in the Empty Quarter have been almost entirely created by the military, and the army and air force have had

a smaller but significant impact on Najran, Taif, Khari, Medina and Taiba. A city which under existing plans is about to be created from scratch by the army is at Wadi Bani, in the north-east of the Kingdom. It may now be that the development of military cities will be scaled down or will proceed more slowly than before. Locations affected if this happens will be Tabuk and Khams Mushait, where there are plans to expand greatly the existing facilities, and Hafr al Bani, where the new base in the form envisaged at present would cost \$70m.

Military spending is somewhat exceptional in the provincial development context in that it is one area of Government activity in which it would be possible to make really big savings by postponing individual projects.

Susceptible
Agricultural development is not very susceptible to cuts in Government spending, partly because the main initiative in this area lies with private entrepreneurs and partly because the Government sees it as a good way of pumping money directly into the hands of its subjects.

The transfer of funds from state to individuals via agricultural development is achieved through a vast array of subsidies, support prices and interest free loans.

In fact it seems likely that investment in new wheat production projects is on the point of falling, simply because the country is approaching self-sufficiency. It is assumed that the Government will not want, in effect, to subsidise wheat exports and that it will soon stop granting land for new projects.

The main areas of new agricultural activity in the next three or four years will be in the production of fresh milk in which the Kingdom is only 10 per cent self-sufficient, and chickens, where Saudi farmers meet about 30 per cent of demand. Saudi production of chickens in 1982 ran to 80m birds, but the population favoured 270m birds, which worked out at 35 per head.

Other types of farming which seem set to expand are red meat production and fruit and vegetable growing. Many of the new fruit and vegetable projects being discussed in the provinces are associated with plans for storage and processing facilities.

The Government's spending on infrastructure and the development of agriculture have together had an important effect on stimulating provincial trading companies.

In the past most provincial merchant establishments bought

entirely from importers or wholesalers in Jeddah, Riyadh, Dammam or Kuwait. Now the more enterprising traders are signing distribution agreements with importers or are dealing directly with exporters. They either buy from exporters' representatives visiting the provinces or they go to Europe and place their orders there.

A handful of provincial merchants have taken direct regional agencies from European manufacturers. A company that has several provincial agents in Saudi Arabia is the German agricultural machinery firm, Hirth.

The growing prosperity of the provincial private sector is beginning to create a demand for contracting services on the part of clients within the provinces. This is in contrast to most of the infrastructural building work carried out in the provinces so far, which has been done under contracts let by central government ministries in Riyadh.

Private sector projects in the provinces are for minor industrial and agricultural processing plants, hotels, office and apartment blocks, bank offices, and small housing compounds for foreign workers. To these projects can be added those being built by the provincial authorities, which include town streets and lighting, sewerage systems, water supply, water recovery and purification schemes, various municipal and governorate buildings and some housing.

A few years ago it was not worthwhile for Western contractors to maintain any marketing presence at all in the provinces, but recently a few have begun to employ local contract spotting agents.

Contractors should not assume, however, that there will be a trend towards all provincial contracts being awarded in provincial centres. The governors of the provinces, all of whom are extremely powerful and many of whom are brothers of the King, can promote ideas for projects and have the implementation of projects accelerated. But they have no influence whatever over who gets contracts when the contracts come under the authority of ministries in Riyadh.

A report on Saudi Provincial Development by Michael Field, who wrote this article, is to be published in May by the Committee for Middle East Trade (COMET), 30 Bury Street, London W1.

The state's aid for farmers

The following is a full list of grants, loans and support prices available to Saudi farmers.

Land acquisition—free on approval of project, from Ministry of Agriculture and Water (MOAW). In cases of joint-ventures land is given to the Saudi partner, not to the joint company.

Poultry equipment—subsidy of 30 per cent of cif price, or 20 per cent of cif price if project is benefiting from Saudi Arabian Agricultural Bank (SAAB) loan. Subsidy given via SAAB, which draws its subsidy funds from the Ministry of Finance.

Dairy equipment—same subsidy terms as for poultry farms.

Agricultural machinery and equipment—subsidy of 50 per cent of price of engines and pumps and 40 per cent of price of other equipment, such as ploughs. (Centre pivot irrigation systems do not qualify for a subsidy under this heading, or any other heading.) Subsidy paid by SAAB.

Agricultural loans—for investment and working capital, from SAAB. Most loans run up to 10 years; repayment of land reclamation loans is spread over a longer period. Loans may be up to SR 20m and for 50 per cent of the cost of projects. All loans are interest free. There is a two-year grace period before repayments start.

Most loans are given according to fixed scales, involving for dairy projects, for example, a set number of riyals per cow. In the case of joint-ventures loans are not given to the joint company itself, but to the Saudi partner personally. The Saudi must give his own guarantee of repayment.

Agro-industrial loans—for investment capital. Loans cover up to 50 per cent of capital costs, and carry a 2 per cent service charge. Loans are given by the Saudi Industrial Development Fund (SIDF).

Transport of milk cows—SAAB will pay all the cost of air freight for milking cows, provided that there are at least 50 cows in a consignment.

Seed potatoes—MOAW will pay for 5 tonnes of seed potatoes cwt. It then gives a subsidy of SR 1,000 per tonne up to 15 tonnes.

Date palms—MOAW gives a subsidy of SR 50 per tree if at least 50 trees are being planted.

Chemical fertilisers—MOAW gives a subsidy of 50 per cent of the cif price to the merchant importer/seller, provided that he is adding by MOAW stipulated prices in his sales.

Pesticides—MOAW gives 100 per cent subsidy.

Animal feeds—SAAB gives 50 per cent subsidy on cif price.

Wheat buying price—SR 8.50 per kilo by Grain Silos and Flour Mills Organisation (GSFMO). (The wheat buying price is equivalent to about \$1,000 per tonne, which compares with a cif price for wheat at Jeddah of about \$200 per tonne and a maximum Saudi production cost of about \$450 per tonne.)

Production subsidies on grains and dates—paid by MOAW. Rice SR 0.30 per kg; maize, sorghum and dates SR 0.25 per kg; barley and millet SR 0.15 per kg.

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A town governor's morning

GOVERNMENT AND business in Saudi Arabia are extremely personal affairs. In the provinces the influence of personalities, and particularly the influence of the province and town governors, is even more important than it is in the big cities. Exporters and contractors who go to the provinces are quite likely to find themselves calling on the offices or the governor's chambers, either for courtesy reasons or because they need their help in some matter. Issues that a contractor might bring before a governor are land disputes and requests for visa renewals.

The style of government in the provinces is illustrated in rather graphic and human terms by two cases which came before Mohammed Hamad Sulaim, the governor of the town of Onazab in Qassim province, in February this year. The governor, who until a few months before had been the headmaster of a secondary school in Riyadh, described the cases late in the morning on which they had occurred.

The first problem involved a land dispute, caused by a man digging a well, without a permit from the local office of the Ministry of Agriculture, on land which a neighbour said belonged to him. The governor did not make an immediate decision on the issue, but decided to look into the matter further during the afternoon and the rest of the week.

The second incident involved a motor accident which had occurred at 4.30 that morning. It had resulted in the death of one of the

drivers. The police had been to the scene of the accident, had worked out how it had happened and had concluded that it had been the dead man who had been to blame.

By the time the matter came to the governor's attention the other driver had been put in prison pending discussion of the incident at a higher level and a decision on whether or not blood money was to be paid.

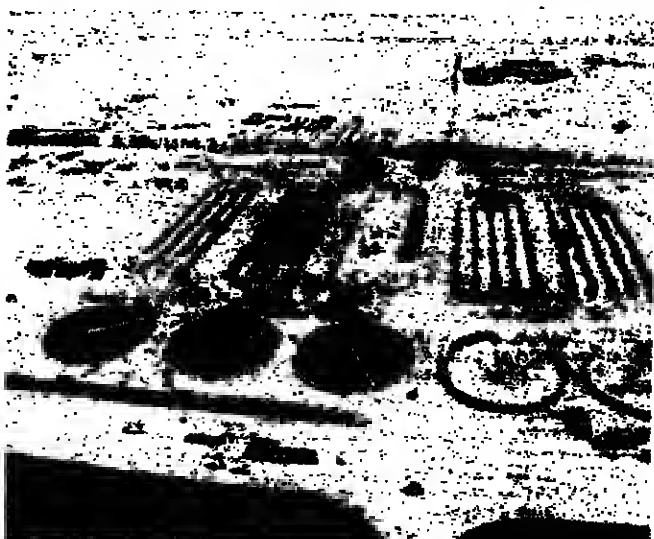
Soon after the governor had had the news two lady relatives of the imprisoned man came to his office and promptly burst into tears. This, the governor explained, was quite a common occurrence and one which never failed to cause him anxiety.

On this occasion, however, he told the ladies that their relative must stay in prison until the issues of blame and blood money had been resolved. Then representatives of the family of the dead man arrived. They said that the death of their member must have been God's will, and added that they would not demand any money and that the driver could be released. The governor got them to put this in writing for him and for the police, and then sent them to make a statement in front of the Qadi, the judge of the town, saying that they would not demand blood money at any time in the future.

By 10 am the entire matter had been settled and the innocent driver was free. The episode says much for the speed with which government (and business matters) can be transacted in a provincial town.

The kingdom's contracting market is still one of the world's biggest but the number of contracts is declining, says Randall E. Palmer

Margins squeezed as big spending ends



A sewage treatment plant under construction at Dammam earlier this year. The contractor is Simon-Hartley of Staffordshire, England.

Local companies receiving help

WITH THE Saudi Government tightening its belt, local contractors are being forced to slim down. But the authorities are doing their best to protect the Saudis from being squeezed too hard.

The most drastic protection came via two decrees from King Fahd in February and March. One compels foreign contractors to subcontract at least 30 per cent of the value of each contract to 100 per cent Saudi-owned contractors, and requires all contractors to use Saudi companies for several services and for importing.

Dr Abdul Rahman Al-Zamil, deputy Minister of Commerce, explained the Government's reasoning: "The basic issue that we have noticed is that foreign contractors tend to give their subcontracts to other foreign contractors, especially for their own nationals, but they should not prevent Saudis from bidding on the same subcontract." He noted the Government wants to build strong Saudi companies, not just projects.

Many contractors said it would be difficult to pass on 30 per cent of some jobs, especially those requiring high technology. Dr Al-Zamil conceded that there might be "minor exceptions" in "special, extremely special cases," but emphasised that the resolution itself makes "absolutely no exceptions."

Advertised

The other decree requires that all government projects be publicly bid and advertised in the papers, thus ending the era of invitation and negotiation.

All companies and joint ventures can now bid, provided they have been classified by the Ministry of Public Works and Housing as capable contractors for that type and size of job. Dr Al-Zamil said the bidding would be limited exclusively to those on that list, thus doing away in most cases with the need for each agency or ministry of pre-qualification contractors. (While pre-qualification may eventually fade, it was interesting in April, after the decrees, to note an invitation to contractors to pre-qualify from the bureau in charge of building the new diplomatic quarter in Riyadh.)

Dr Al-Zamil said that more than 200 foreign contractors are already on the classification list, but he maintained that one of the effects of the decrees will be to help Saudis win jobs, the other effect being even sharper competition and lower prices.

"There will be at least 20 to 25 competitors, and with such competition, prices will be killing, and good Saudis can meet that competition," the deputy minister contended that Saudi companies, usually smaller, often would not hear of jobs, and often were not invited to bid because they may have been somewhat less qualified.

"The decision was taken away from a minister or a deputy minister to say, 'This Saudi or this has no right to bid; I don't want to invite them,'" he said. Now, once a company is classified, it will compete strictly on price, though Dr Al-Zamil said a minister still could exclude all foreigners from a bid.

"The Government chose to open bidding now because the country no longer needs to build as fast and make quick decisions on contract awards," he said. "We have built almost all our infrastructure. Everything has been achieved."

And during that time, the capability of Saudi companies has developed so they "can handle a lot of work," Dr Al-Zamil said. "This is a clear certificate of confidence from the top man in the country."

Both Saudi and foreign companies said they welcome the resolution. An Australian contractor manager of a Saudi firm with SR 40m to SR 50m (\$12m to \$15m) in defence contracts each year, commented: "If it's implemented, it'll be a very good regulation. The key word is 'if.' It'll clear the contracting game a lot, and it'll help those Saudi companies which don't have the political clout."

The decree indicates few exceptions will be made, stating: "We have noticed that some officials surpass regulations and instructions, and then ask for

NORMALLY CAUTIOUS Japanese companies last autumn announced they expected to sign a \$390m contract for a desalination plant on the Red Sea by the end of 1982. It still has not been signed.

Meanwhile, tenders for a companion \$900m desalination/power plant for the Asir were cancelled altogether, and new tenders will reflect a reduced scale. Sources said the ultimate cause of both was the decrease in government revenues.

Saudi leaders have eloquently played down the effect of lower revenues. Hisham Nazer, planning minister, for example, has repeatedly said that the cuts will not affect the third development plan (1980-85), which he says was based on a production of 5m barrels of oil per day at \$18 per barrel.

Nevertheless, he said a number of projects that had been advanced from the fourth plan will now be pushed back again.

Certain areas are more expendable than others, however. One of the biggest new projects being bid now, for example, is the King Faisal Air Force Academy to be built at Al Khari, 50 miles south of Riyadh. (Nevertheless, the defence budget did face a cut of roughly 18 per cent to \$18.7bn (\$R 54.8bn).)

Spending on the Saudi Arabian National Guard (SANG) is also continuing strongly. In fact, the \$1.25bn in

contracts awarded over the winter were probably the most spectacular of the season. In December and January, it awarded \$697m of jobs for public buildings to complement housing at virtually self-sufficient SANG cities at Jeddah, Taif, Dammam, Hofuf and Khafm Al-Aan (near Riyadh).

Security protection

Then in March, South Korea's Keang Nam Enterprises picked up a \$68m contract for public buildings and housing at a completely new SANG city to be built at Dirab, also near Riyadh.

The Ministry of Interior, likewise, awarded one set of contracts last year worth \$1bn for internal security forces housing around the Kingdom, and is planning another set of contracts soon, probably for a smaller total.

But the emphasis is shifting to operating rather than erecting new facilities.

The Ministry of Health, for instance, took bids for 12 hospitals last autumn, but few if any of the bidders have been called in to negotiate. And companies are still clarifying their bids, more than a year after submitting them, for a 1,350-bed hospital complex to be built in Riyadh, which may cost \$600m. Instead, there will be an emphasis in the ministry on training of hospital man-

power, and running the hospitals, said Al-Zamil.

Other projects or sectors are almost certain to go ahead, because of other commitments or government priorities. King Fahd has said that Riyadh's new diplomatic quarter must be ready for embassies by September 1984. Contracts worth \$300m have been awarded, and many more superstructure contracts are expected in the next few months.

Officials indicate that too much hinges on the heavy petrochemical industries to slow down the ones under construction. Even on the Petrokemaya ethylene plant in Jubail, from which Dow Chemical announced its withdrawal in December, the Saudi Basic Industries Corporation (Sabic) signed an agreement only weeks later with Japan's Chiyoda Chemical Engineering and Construction Co to design and build the plant, and work is progressing.

Nevertheless, Sabic could easily delay the choice of contractors on several other projects for which it has plans.

Another project likely to go ahead is the Eastern Province International Airport (EPIA). Taiwan's BES Engineering Corporation has begun site preparation northwest of Dammam under a \$15.4m (\$R 55.5m) contract.

The project manager for Riyadh's new airport, Arabian Bechtel Company, widely

tipped to get the EPIA also, has already done extensive design work on it, but there has been no report yet of a contract signing.

Recently the bids for a related project were cancelled, a new international terminal at the existing Dhahran International Airport, which was to have handled traffic for the few years until the EPIA could be completed. A low bid of \$40m (\$R 137.5m) was received in December.

Contract awards slowed down well before the April 13 budget. The Ministry of Finance said spending during the 1982-83 fiscal year was 22.5 per cent below the budgeted \$90.8bn (\$R 313.4bn). A vice-president in a Riyadh-based bank said that since November, business with contractors has been very slow.

Ironically, though, "we have more than we can chew," he said, explaining that the bank is very busy putting together guarantees for bids even though the bids are often not materialising into contracts.

Many contractors are still very busy on current jobs, said another senior Riyadh banker. "For two and a half years now," he said, the Saudis "have been laying on contracts like nobody's business."

Nevertheless, the companies have had to fight hard to win new jobs. "Firms are getting really desperate for new business in Saudi Arabia," asserted

the manager in Saudi Arabia for a British cable manufacturer. He said companies slice margins to become low bidders, and when they are called in to discuss the contract, they're prepared to cut their low bid even further, "with the possibility that they 'might just collapse down the road.'"

Competition

Competition has been made tighter by the fact that Saudis have been accorded protection from their Government in two recent decrees (see the article on contracts), and also by the fact that project sizes have been cut down when possible to allow smaller Saudi companies to bid.

The South Koreans and Turks fiercely added to the competition, strongly increasing their contract volumes in 1982. After an increase in 1981 to \$6bn from \$5bn the year before, many did not expect the Koreans to continue to rise in a market that was not growing in size but that was becoming technologically more difficult.

But the Seoul Government estimates the volume of new contracts rose to more than \$8bn last year. One of the reasons was the return to the market—after being banned for two years for bribery—of Hyundai Engineering and Construction Company, South Korea's giant and most sophisticated contractor.

The marketing manager for a

major Dutch contractor said his company's experience in the past year can easily be summed up: "We've been beaten by Hyundai."

A senior official at the Korean embassy in Jeddah noted, however, that "probably is a problem." A knowledgeable estimator for a major British firm concurred: "I am adamant the Koreans lose money. I think in a lot of cases they don't understand the documents."

He also contended they take a loss on jobs to get into the market, and then get new jobs to use the advance payments to pay off bad debts. But he stated, "I think the days of dumping by the Koreans are gone now. They can't afford it." A Saudi supplier agreed, saying the Koreans are becoming very cautious.

The Korean embassy official, however, expecting fewer jobs this year, predicted the Koreans would have to bid even more aggressively than before. He said they will have to try to overcome the effects of a lower budget, and also the decrees requiring foreign contractors to subcontract 30 per cent of their work to Saudis.

That decree will affect the Koreans because they are the Saudi's strongest competitors in civil work—the part of a project most likely to be subcontracted.

Randall E. Palmer is a business reporter on the Saudi Gazette, a Jeddah-based daily.



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The second major project that the Saudi Arab Government has entrusted to Aramco under a special contract is the planning, maintenance and management of the Saudi Consolidated Electric Company (SCECO). Aramco is at the same time a contract operator, shareholder and paying customer of SCECO. SCECO supplies electricity to the Eastern Province towns and villages, the Master Gas System as well as oil operations facilities. Moreover, SCECO will meet the increasing demand of the Jubail Industrial Complex and other industries in the area.

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OPPORTUNITIES IN SERVICE INDUSTRIES

THE following list of opportunities in service industries is based on interviews in late 1982 and early 1983 with executives of Saudi government agencies and service companies already operating in the Kingdom.

INDUSTRIAL SAFETY: there are still opportunities for companies which can advise on and operate security and safety systems in factories. Areas of work mentioned are safety on production lines, fire protection and fire fighting.

WATER TREATMENT: the Saline Water Conversion Corporation is now doing its own maintenance work, but there are many other authorities involved in water treatment in Saudi Arabia.

There is considerable activity in the development of water supply and sewerage systems in the provinces. In some areas, including Tabuk and Asir, there are plans to supply towns inland with desalinated water pumped from the coast, though these plans may be postponed now that

the Government is short of revenues.

HOSPITAL MAINTENANCE: this is an area in which there are already several companies operating in Saudi Arabia, but the number of hospitals in the Kingdom is continually growing. In 1982-83 the Ministry of Health signed contracts for the construction of a further 26 hospitals.

Computers

ELECTRONIC DATA PROCESSING: Quite a large number of institutions in Saudi Arabia, including some of the big trading houses and government agencies, have invested in main frame computers. Although there are some computer software companies in Saudi Arabia, there are several cases of computers that are not being used because the owners have not found anyone to help them with the purchase of peripheral equipment and the design and operation of programs.

It is likely that the numbers of computers in Saudi Arabia

will increase enormously in the near future. Buyers will be trading houses, which are now having to improve their after-sales and spare parts services in order to make themselves more competitive, and industrial companies of all sizes.

HELICOPTER AND LIGHT AIRCRAFT SERVICES: This is an area for companies to watch, although at present the Saudi authorities do not look with favour on private air transport operations. The Ministry of the Interior is concerned about the security aspect, and Saudi look on small companies as competitors, even though it is so busy managing its large fleet that it does not have time to run a helicopter operation.

Given the size of the country and the growing dispersal of development there is obviously an enormous market for private air services in the Kingdom.

AIR-CONDITIONING MAINTENANCE: There are already a number of air-conditioning maintenance companies with

in Saudi Arabia, but the demand for maintenance of both central systems and unit air-conditioning is so vast that there are said by commentators to be opportunities for new maintenance companies. Saudi Arabia is the world's second biggest user of unit air-conditioning.

NOTE: an area of business in which the market in Saudi Arabia is now said to be temporarily full is operation and maintenance. A "shake-out" of O&M companies is predicted.

Specifically, the eight public cement companies are now in the process of setting up their own maintenance operations, as the Government's Saline Water Conversion Corporation has done, and it has been suggested that the Kingdom's dairy companies should do the same.

In the medium-term there will be renewed growth of the O&M market as Jubail and Yanbu become fully developed in the mid- and late-1980s.

Michael Field

Success for many Saudi service companies

Highly profitable sector

A FEATURE of Saudi government finance in recent years has been the steady rise in current, as opposed to development, spending. Not only have allocations for current expenditure been increased greatly in most budgets since the late 1970s, spending for current purposes has consistently overrun allocations.

Faced with reduced revenues the Government is now cutting its capital expenditure, which in the past has normally run below the levels projected, but it will find it difficult to reduce current disbursements. It may be able gradually to take steps to cut the vast subsidies it gives to consumers and to investors in property, industry and agriculture, but it cannot reduce the sums it spends on running its huge and opulent airports, ports, hospitals and universities.

One incidental result of this is that business opportunities related to service work in Saudi Arabia are still looking attractive, while the market for construction has deteriorated.

Competition

In the private sector likewise demand for services has recently been increasing while demand for contracting has declined. Investors in large apartment and office blocks and hotels, who traditionally were reluctant to spend any money on servicing their buildings, are now suddenly determined to maintain them in good order.

The change of heart has been prompted partly by increasing competition and partly by the extremely high quality of the fabric of some of the newest buildings. Having built what are usually elegant and extravagant specimens of modern architecture, investors are anxious that they should continue to look magnificent.

They have also been impressed by well known cases of other investors having incurred huge capital expenses through having failed to spend sufficient money on maintenance of their buildings in the mid- and late-1970s. Several major buildings in Arabia have had to be replaced after only a few years of operation. The "Queen's" building in Jeddah had its entire central air-conditioning system break down only three years after it opened.

Further demand for services has come from the owners of industrial projects. Rather than incur extra capital and labour costs through developing their own machinery maintenance and cleaning operations, they have been anxious to contract out this work to other companies.

Many of the Saudi service companies launched in the past five years have been highly profitable - more profitable in some cases than successful industrial companies.

Saudi companies that own both service and industrial operations say that they have found their service markets less competitive than the industrial ones. Many simple industrial products are now made by several different companies in Saudi Arabia, and any new local product requiring relatively low technology and small amounts of capital is likely soon to be copied, if other businessmen see that its manufacturer is making money from it. One of the Olayan Financing Company's projects of the late 1970s, for a plant to manufac-

ture water tanks of fibreglass reinforced polyester, now finds itself trying to keep its prices down so that it can resist large numbers of minor local competitors.

Service industries have the further advantage of being fairly resistant to competition from imports. In many businesses it is virtually impossible for an outside supplier of a service to compete with a supplier within the kingdom.

This means that the local company cannot be damaged by cyclical surpluses of products in the industrialised world, which have often caused problems for industrial and agricultural companies.

The Saudi Agricultural Development Company has occasionally found that its eggs have been underfoot in Riyadh by imports from as far away as the United States. Likewise, during the recession the Aluminium Products Company, which manufactures door and window frames and other aluminium structures used in building, has found itself competing with imports from Japan.

A rather exceptional service company that has prospered because it has found itself without competitors has been the Saudi Chemical Company (SCC), whose shareholders are Prince Khalid bin Abdullah bin Abdulrahman, the Olayan Financing Company and Nikro Nobel AB.

The company manufactures explosives and carries out blasting work for contractors. The key to its success has been that it thought of going into the business before other Saudi companies and was able to obtain from the Saudi government, which is highly security conscious, a semi-exclusive licence for the manufacture and importation of explosive. The only other importer is Aramco. Although contractors can buy explosives from SCC and do their own blasting, many of them are so daunted by the bureaucracy involved that they prefer to employ the manufacturer to do the job.

Example

A highly successful company that operates on a broader scale is Dallah-Avco, which is probably the best known service company in the Kingdom. This combination of an established Saudi company, Dallah, and an American company, Avco, which was bought by its Saudi partners in 1978, has won most of the operations and maintenance contracts for airports in the Kingdom.

It provides support equipment, baggage handling, despatch, logistic support for air control, maintenance of buildings and runways, catering and housing for staff. Given its near monopoly position and the single customer it will be difficult for a competitor to establish in Saudi Arabia a sufficiently big and plausible looking operation to challenge it.

Other companies that seem to have put themselves ahead of competitors are the Industrial Services Company of Saudi Arabia (ISCOSA), which is owned by a Saudi company and Westinghouse, and does repair work on electrical equipment; Rajah Hydrocoil, which does detailed survey work for roads; and Conam, a wholly owned Olayan concern, which at one time did all the maintenance work on the Kingdom's desalination plants before the Saline Water Conversion Corporation

established its own service operation.

Although Conam is still the biggest desalination plant maintenance company in the Kingdom, the scale of its operations has been reduced by the takeover of much of its work by SWCC. Given that water treatment in its different forms comes under many separate government authorities in Saudi Arabia, the market for Conam's type of service in the Kingdom is now regarded as being fairly open.

People who are in the business say that careful management is even more important in service industries than it is in manufacturing companies. Whereas a manufacturer can develop a system to produce his product

at a lower price than his competitors and sell on this basis alone, a service company has to be marketing itself continually. Its management has to talk to its clients and make sure that they are getting the service they expect.

A senior executive of one of the more successful Saudi service and industrial groups remarked recently that in services "client" concerns problems came up much more often than they did in industry, and that, unlike importing and trading companies, his service affiliates had to work for all their income. "But this," he added, "is the other side of the coin from the big margins."

M. F.

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Insurance market expands despite religious objections

HOW TO minimise personal and corporate risks continues to be one of the dilemmas that face foreigners in Saudi Arabia. Commercial insurance is explicitly prohibited by the kingdom's religious leaders. But few in the Saudi business and government elite would deny cover against the possibility of unforeseen losses is essential.

Religious rulings about insurance are not entirely unambiguous. The council of senior ulemas definitively proscribed all kinds of commercial insurance in 1977. But a subsequent resolution by the general secretariat of the board of senior ulemas—headed by the blind divine Abdel-Aziz Bin Abdullah Bin-Baz—affirmed co-operative insurance was permissible.

Islamic objections to insurance are complex, but can be broken down into three main categories: commercial insurance contracts contain usury (riba) because the assets of insurance funds are usually invested in interest-bearing instruments; gambling (maisir); and action to circumvent the will of God (tuhala).

Options vary about the degree to which each of these forbidden elements occurs in commercial insurance, but there is general agreement that tuihala is an invariable and unacceptable feature of commercial insurance.

The influence and fundamentalism of Saudi Arabia's religious leaders have created tight limits to the freedom with which the Government can deal with insurance. The kingdom is governed by the Sharia, but a commercial code has been established over 50 years to cater for the needs of the growing number of foreign and indigenous business corporations.

But the pragmatism that characterises the Government's approach to many areas of commerce and industry is much less evident so far as insurance is concerned.

The contradictions became

increasingly evident with the start of the oil boom. Demand for insurance has risen dramatically because of the extraordinary amount of construction work and the sharp rise in the volume of cargo brought into the kingdom by air, land and sea. This created major opportunities for insurers, but companies could not register in Saudi Arabia itself to serve the market.

The tension between the demands made by Islam and the needs of the Saudi economy runs through the public and private sectors. But it is a particularly troubling issue for state agencies. Whether insurance cover is sought depends upon individual officials with the result that insurance is patchy in the public sector, and policies and standards vary considerably.

Contribution

The official position that insurance is invalid failed to discourage some state agencies from making their own contribution to the development of indigenous insurance skills.

Most notable is the Royal Commission for Jubail and Yanbu's insurance "wrap-up" programme for all its non-maritime facilities, estimated to be worth about \$17,000m at the end of 1982. At the specific request of the Royal Commission, considered to be one of the most progressive of Saudi state agencies, local insurance companies were allocated 75 per cent of total risk. Responsibility for preparing and supervising the programme was given over to a joint venture involving locally-owned United Commercial Agency and top U.S. broker Alexander and Alexander.

Even though the package was widely publicised when it was arranged in May 1980, articles discussing the role of insurance in Saudi Arabia are usually removed from magazines and newspapers before they reach the kingdom's bookstalls. Sensitivity is still acute about

insurance despite the extent that it has been adopted throughout the economy.

Cargo insurance is estimated to represent the largest single portion of total business done, reflecting the kingdom's extraordinary import needs. Construction all risk (CAR) has now fallen into second place reflecting the structural and cyclical slowdown in the market. Together, the two classes account for about 70 per cent of the market. Fire insurance probably accounts for as much as 20 per cent, and a wide range of other classes makes up the remainder.

Reflecting the structure of the Saudi business community, insurance contracts have generally been comparatively few but substantial in value. At the smaller end of the market, the principal money earner was workmen's compensation insurance, thanks to the kingdom's strict labour laws forcing employers to compensate their employees for injury at work.

But all this changed in the spring of 1982 with the Government's decision to transfer the entire business to the General Organisation for Social Insurance—the rough equivalent of the U.K.'s national insurance system.

The other substantial, low-average value market is motor-car insurance. Most prudent drivers have taken out comprehensive car insurance. The business, however, is far from profitable because of Saudi Arabia's horrifying accident rate and the high cost of repairing damage. Life insurance is still very much the exception among Saudi citizens.

Up to 300 insurance outlets, an excessive number, service the Saudi market. The main reason why there are so many, perversely, may well be the government's failure to incorporate insurance into the kingdom's legal framework. Though insurance companies may not be established in Saudi Arabia, there are no obstacles to insurance firms registered offshore, doing business in the

kingdom. This, coupled with benevolent attitudes at senior government levels, has effectively removed all barriers to new entrants to the market.

The result has been rates pushed well below prudent levels, often even lower than those recorded in Europe for identical facilities. This trend intensified following the emergence of a growing number of Saudi-owned or affiliated companies—precisely those firms that actions like the Royal Commission's is designed to encourage.

Often with only very limited capacity to retain risk, sometimes staffed by people with limited experience of the technical challenges insurance creates, these companies are said to have placed additional downward pressure on rates.

But brokers, underwriters and reinsurers from established insurance centres are also allocated some of the blame.

Buffeted by recession and an explosion of capacity, many have sought relief from trading in traditional markets by riding the kingdom's insurance boom. Western reinsurers now say they are attempting to underpin the kingdom's rating system, even if this means loss of business and cash-flow. In the kingdom itself, the Saudi Insurance Association—the principal grouping of Saudi-owned and affiliated insurers—is attempting to encourage improvements in professional standards and is about to launch staff training schemes.

Significance

Leading figures in the association are playing down the significance of a split which led earlier in 1983 to the resignation of 11 of its 28 members—including Saudi United Insurance Company, an affiliate of the Ahmed Hamad Al-Gosali & Brothers group. Unity between the two sides is forecast by the summer.

These moves are welcomed, but critics of recent developments predict that only a major loss will restore acceptable rates by shaking out the less professional insurers. The risk of this happening is ever present. Recent examples of the surprises the kingdom can spring include floods, like those in early 1982 which swept away huge stretches of road in the south-west and caused considerable damage in Jubail industrial city.

The Gulf oil slick threatened the kingdom's desalination and thermal power plants in the spring. Major claims could have been made if winds had swept the oil west instead of towards Iraq.

Others look towards self-regulation coupled with some form of state intervention. Hopes that the government would regularise the market were raised in March by a government statement encouraging the use of local companies—that explicitly mentioned insurance firms. But there is little concrete evidence this will happen in the near future.

A third body of opinion invests hope in the development of Islamic insurance which would upgrade the importance of profit-making in the insurance business. Only two companies of any significance have offered Islamic insurance—essentially based on co-operative or mutual funds. Neither have managed to prevent the shift towards commercial insurance.

Geneva's Dar al-Mal al-Islami (DMI) launches its own Islamic insurance scheme this summer. DMI executives say their concept is about to make the breakthrough that will consign conventional insurance to the rubbish-bin of history in Muslim states—but not overnight. A 10-year transition period—even if the DMI scheme succeeds—is considered an optimistic prediction. Western insurers have reason to hope the change will take much longer.

Edmund O'Sullivan

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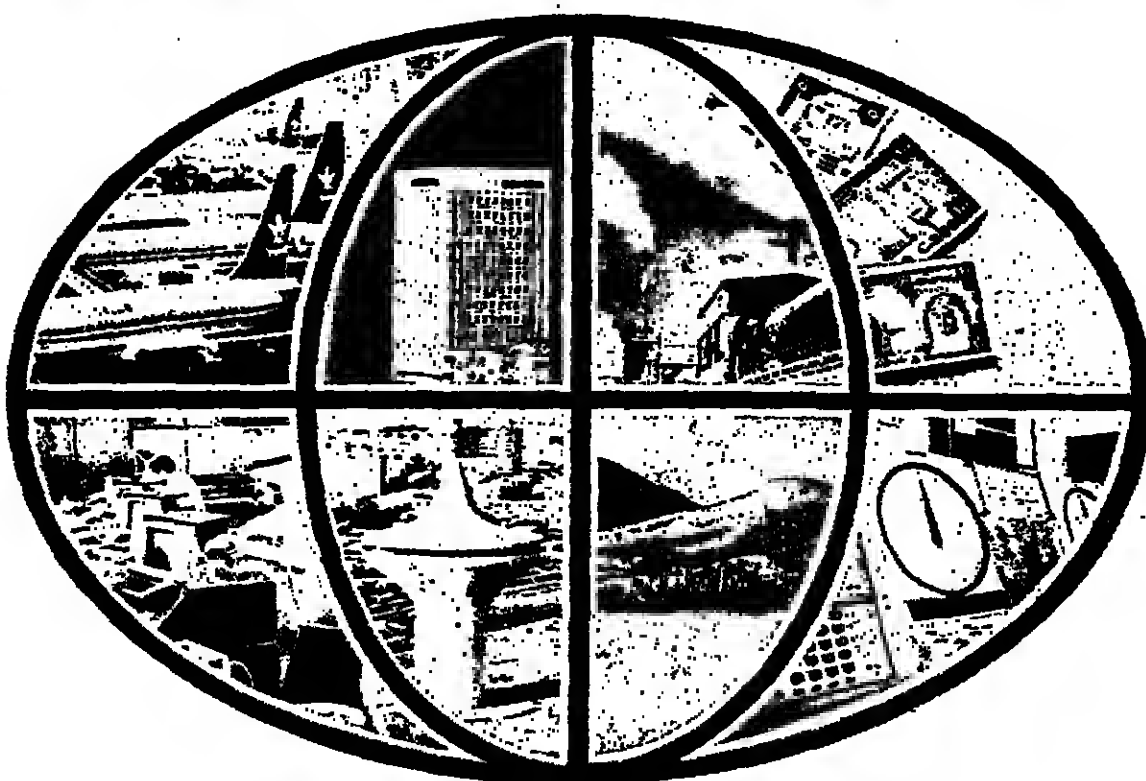
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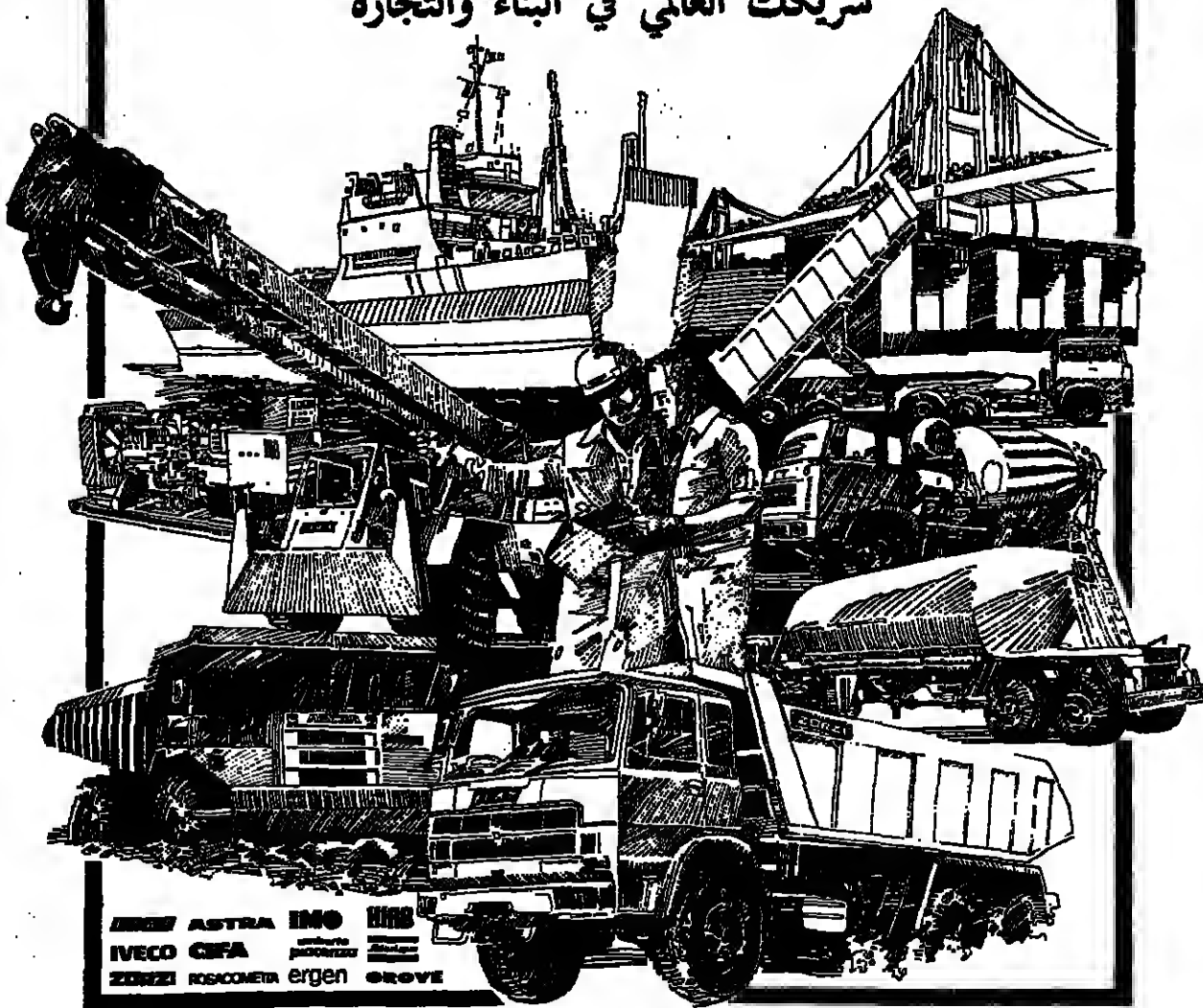
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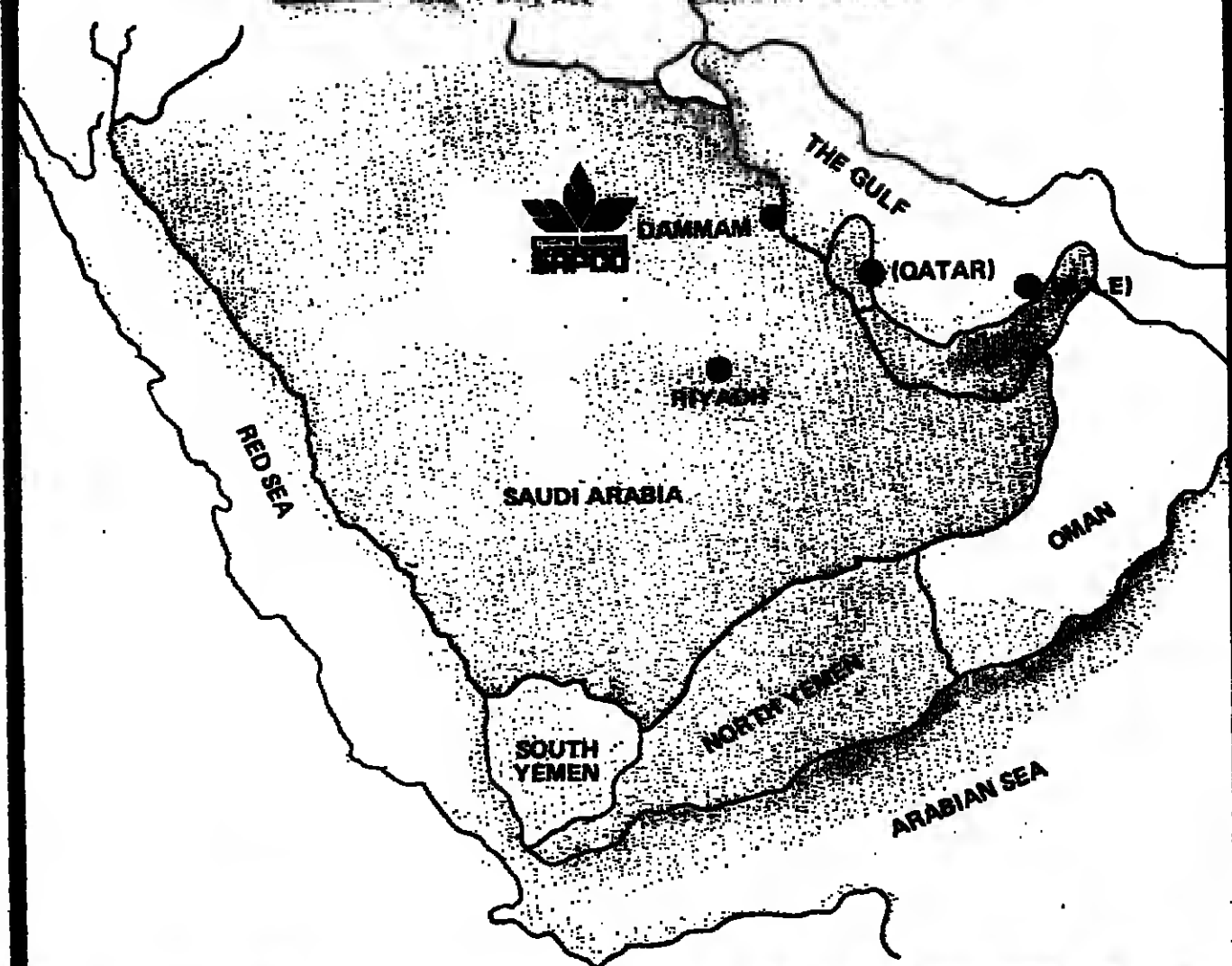
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Monetary Agency's policies come under closer scrutiny

THE RECENT sudden departure of Abdul Aziz al-Qurashi as governor of the Saudi Arabian Monetary Agency raises a series of questions that will only be partly answered in the months ahead. Why did he leave after nine years? Who will be his successor? And perhaps most importantly will it have any impact on SAMA's foreign investment strategy?

Qurashi's resignation was officially explained as a retirement to allow for his long-desired return to the private sector. But when the news first broke in Omani newspapers, speculation quickly spread through a stunned banking community that the exit was due to a disagreement on budget policy.

It is known that the 62-year-old Qurashi had in fact wanted to return to his family's lucrative commercial enterprises as long as two years ago. He was telling close associates only two months ago that he intended to step down. And despite the ominous connotations of officially leaving on the same day the new budget takes effect, it is the traditional time for retirement because the pension fund has always preferred it that way.

Successor

Vice-governor Hamid al-Siyari was named acting governor until King Fahd settles on a permanent successor. For the time being, he is considered the front runner for the job. He enjoys the strong support of his finance minister, Sheikh Mohammed Aba Al-Khail, who nominated him as vice-governor in May 1980 when then vice-governor Khaled Al-Gosaili retired.

The 41-year-old Siyari comes from the Nejd province of Qassim and was first brought into the Ministry of Finance and National Economy from the Institute of Public Administration, where many of Aba Al-Khail's lieutenants have been recruited.

Prior to his arrival at SAMA, Siyari served with the Saudi Industrial Development Fund, the Public Investment Fund, and as chief analyst in the budget department at the Ministry. His unexpected elevation to the vice-governorship in May 1980 ruffled a few feathers however, and Ahmed

Abdul Latif, the talented director of foreign investments was elevated to deputy governor, a position that lacks the political weight of the royally-appointed governor and vice-governor slots. Dr. Ahmed Al-Malik was brought over from the Ministry of Defence where he earned a reputation for financial prowess to succeed Abdul Latif in the foreign investment department.

The attention being focused on SAMA would not be so great if it wasn't for the growing importance of its role as overseer of Saudi Arabia's huge portfolio of foreign assets, which currently total about \$140bn. There has been growing pressure on the monetary agency and its handling of the investments in the light of the plunging oil revenues. And the net drawn down this fiscal year will probably be substantially greater than the \$10bn envisaged in the budget.

SAMA's investment strategy has been marked by extreme conservatism and a prudent recognition that the security of its assets rests with the stability of the western financial system. It took the initiative over the last few years to steadily increase its contributions to the International Monetary Fund to some \$17bn for instance, and last December it placed \$1bn in dollar deposits with Paris banks to help President Mitterrand defend the battered franc.

The 30-year old monetary agency prefers fixed rate, very liquid investments, either direct placements of government securities or cash deposits with a carefully selected list of foreign banks. Two thirds of its portfolio is in U.S. dollars, primarily U.S. government treasury bills and notes and another 20 per cent is in D-mark and yen denominated securities. It invests in seven other currencies.

The foreign asset portfolio is only one of SAMA's responsibilities. It must also oversee the kingdom's rapidly developing banking system and the management of the currency. Both have been characterised by an increased appetite for regulation.

Its banking control depart-

ment, under director general Omar Sajeiny, has been sending auditors on occasional surprise visits over the last six months to keep the banks on their toes. Since last October, SAMA has required more detailed monthly reporting, detailing assets by currency and maturity. There is still an informal limit on the dollars the domestic banks may purchase in a single day, ranging from \$50m for the smaller banks to \$100m for National Commercial. A 15 per cent withholding tax on interest income earned by a foreign bank is now being enforced, making it more expensive to borrow offshore.

Co-operation

SAMA issued a circular on January 15 which forbids domestic banks from participating in rival syndications with foreign banks. The circular, however, only applies to rival financing, but does not include guarantee facilities. Ironically, the offshore banks thought the circular was aimed at them, to curb offshore rival activity. As it turns out, the circular was meant to prod the local banks to co-operate more and to increase their own domestic lending.

It seems the idea of the ban arose after the governor took a look at an eight page foldout ad by Saudi American Bank last November which highlighted its impressive list of syndications. Unfortunately, from Governor al-Qurashi's point of view, almost all the participating banks were foreign; he thought

the lack of offshore co-operation was one thing, but rubbing it in with such publicity was another. SAMA has also made it clear it is not in the business of rewarding bad management. When the Dammam-based Al-Rajhi offshoot found itself in trouble last year the monetary agency made no move to bail out the hapless speculator. A committee was established to investigate the outstanding debt, but that was the extent of its limited involvement. The message has been well received among the banks, some of which may soon experience some difficulties with undisciplined lending.

SAMA has also been very successful in keeping the rial one of the hardest, freely convertible currencies in the world. It appears to have abandoned the rival's parity to the SDR, however, for the sake of stable exchange rate parity to the U.S. dollar.

According to finance experts, the monetary agency's track record on both the domestic and foreign investment side under the nine year leadership of Al-Qurashi has been remarkably solid. It has, in fact, been Qurashi's strongest asset in the agency that he has been powerful enough to stave off any hint of corruption.

SAMA remains open to Saudi Arabia's most solid businessmen and Qurashi's successor will have a formidable task in maintaining the performance record of the departing governor.

Patrick McGovern

Banks face up to period of slower growth

ONE OF these nights there will be a gathering of bankers, perhaps on the verandah of a Jeddah seaside villa, with a cool breeze from the Red Sea to break the stifling summer heat. Their striped jackets tossed to the side, they will sink back into their chairs, sip from tall glasses of Saudi champagne, and talk misty-eyed of 1982, the last of the golden years of banking in the Kingdom.

While the changes underway in the domestic banking system are neither dramatic nor entirely unexpected, it is clear to everyone that the heady days of relatively easy profits and phenomenally high growth are over. The slowdown in government spending is translating into a greater reliance on the banks in financing working capital requirements. Credit decisions are getting tougher as the market spreads to small and medium sized companies lacking sophistication or track records. Both risk and cost are rising while margins are falling; earnings look to tumble to more earthly levels this year and capital growth will almost certainly slow.

It is a new era for the banks, a phase 2, and it just won't be as much fun anymore. The banks, however, will be tackling this new phase of a more moderate growth with a solid base to work from, for the banking system as a whole made impressive strides last year, perhaps only just short of spectacular.

The consolidated assets of the ten commercial and investment banks climbed over the SR 20bn mark by the year end and the total balance sheet footings rose to more than SR 216bn. Five years ago it was less than a third that, about SR 70bn.

Net earnings for the year were an average 20 per cent or better over 1981, and the high rate of retained earnings helped to push the consolidated capital and reserves of the banks to more than SR 10bn. The number of branches rose to more than 350, with most of the expansion in 1982 occurring in the villages and oases outside the three main urban areas.

The banks also introduced an array of new products and services, with the automation of operations paving the way. Saudi American, for instance, the kingdom's very own "go-go"

bank, kept ahead of the pack with direct terminal linkups between the customer's office and the bank's own computer system. Several other banks such as Saudi British, Al Bank Al Saudi Al Hollandi, and National Commercial are rapidly catching up with the automation of their own operations.

Treasury services are also improving as automation and the advent of Reuter monitors in the dealing rooms are backing up enlarged treasury staffs. Plans are underway at two banks for automatic teller machines and electronic banking booklets with selected merchants.

Syndications

Capital management and project financing advisory services are fast becoming the rule rather than the exception at the more progressive banks. Saudi American and National Commercial may soon market credit cards, following the lead of Saudi Cairo and Arabian Express, a privately owned consumer credit card company.

Most of the banks, led by NCB and Samba, former merchant banking or international departments which put together syndicated deals worth more than \$770m in the first three quarters of 1982. Saudi Investment Banking Corporation introduced a new line of products such as vendor leasing arrangements which offer borrowers an alternative means of financing capital requirements.

Such innovations will be essential if the banks are to remain profitable and if the banking system is to continue meeting the needs of a developing economy. But as the economy shifts toward the productive sectors, the traditional profit centres of the banks such as trade finance and bonding facilities are losing some of their lustre. For instance, banks that have relied on the sea income generated from syndications or bonding facilities may find themselves vulnerable to the downturn in the contracting sector since last Hajj. Other banks heavily geared towards trade financing may find themselves equally vulnerable as the growth in imports is expected to decline this year.

These changes are occurring

CONTINUED ON NEXT PAGE

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Money exchangers hit by current account clampdown

THE Al-Rajhi Company for Currency Exchange and Commerce holds current accounts for its customers that total as much as the deposits in the National Commercial Bank, the country's biggest commercial bank. The company's branch network is more than one and a half times the size of NCB's and for many Saudis and expatriate workers, it is the most important financial institution in the Kingdom.

Nominally the company has capital, excluding reserves, of SR 600m (\$175m). This figure is of little legal significance. The true backing behind the firm, an unlimited partnership of four brothers, Salih, Sulaiman, Muhammad and Abdullah, is in the form of SR 240m (\$700m) of personal assets.

Saudi Arabia's other leading money exchangers are nowhere near as big as Al-Rajhi Company but are still substantial institutions. Muhammad and Abdullah Ibrahim Sabai and Abdul-Aziz Sulaiman Mukhairin both firms owned by families from the Nejd, are backed by partners' assets of some \$300m-600m.

Al-Rajhi Trading Establishment, owned by Abdul-Rahman bin Salih Rajhi, and the Al-Rajhi Commercial Establishment for Exchange, owned by Abdul-Rahman bin Abdul-Aziz Rajhi, have backing in the \$100m-plus range. The owners of both of these companies are

closely related to the partners in the main Rajhi company. Abdul-Rahman bin Salih is a son of the eldest brother in Al-Rajhi Company for Currency Exchange and Commerce, and Abdul-Rahman bin Abdul-Aziz is a much younger brother of the partners in the big Rajhi company.

At the bottom of the first league of money exchangers are the firms of Abdul-Aziz Kaaki, Ahmed Abdul-Qawi Samadiah and Ali Hama, whose owners each have personal assets backing their businesses of \$50m-\$100m. Abdul-Aziz Kaaki has a separate fortune derived from his large minority holding in National Commercial Bank.

An interesting feature of the eight biggest money exchangers is that the owners of five, including the Rajhi firms, come from the centre of Arabia, and not from the Hadramaut, in what is now Southern Yemen. The Hadramaut is commonly thought in Saudi Arabia to be the home of most exchangers.

Modern
The Kaaki family is from Mecca, in the Hijaz, and Ali Hama is from the Ghamid tribe, between Mecca and the south-west. Among the big names only Ahmed Abdul-Qawi Samadiah is a Hadrami.

money exchangers are numerous small exchangers in the Jeddah souk, most from the Hadramaut.

A relatively small but fast growing operation is the Ahmed Hamad Alqosaibi Money Exchange Bureau. This was established in Alkhobar in the Eastern Province in 1980. The company is unique in that it is much more modern than the other exchangers.

The most important part of all the exchangers' business in the past 10 years has been the acceptance of current accounts of unsophisticated Saudis and foreign labourers. This business began when most of the companies were founded, in the late 1940s and early 1950s. It seemed natural then for the exchangers to hold money in safe keeping for their clients.

From the 1960s the current account business rapidly increased. Devout Muslims, who included the whole Saudi population and many foreign workers, preferred not to put their money with the banks. They would not ask for interest on their accounts but they knew the banks would be liable to hold the money abroad and earn interest for themselves. This, the customers felt, would somehow put them in sin through having aided the banks' earning of interest.

The money exchangers scrupulously avoided dealing in

interest. A Saudi who dealt with the exchangers' accounts in one of the big banks remarked recently that he had not come across a single instance of an exchanger asking for interest. For any one of them to do so would mean instant disaster if it became known.

The traditional exchangers make their income from dealing in exchange or trading with customers' money. They say the foreign currency they buy is only to cover the drafts they issue to foreign workers, Saudi tourists and Saudis moving investment capital abroad. In practice the amounts they deal in are far bigger than would be required for this purpose.

In the view of the Saudi authorities in the later 1970s the enormous growth of the money exchangers' businesses was not desirable. The exchangers operated outside the banking laws. They were not required to maintain set levels of reserves or keep any funds on deposit with the Saudi Arabian Monetary Agency (Sama), the central bank.

Cheques drawn on accounts with exchangers were not recognised by the Commerce Ministry, as having any value. This meant that if they were dishonoured the payee had no legal redress. In cases where cheques drawn on proper banks bounced, the law in Saudi Arabia is that the drawer is sent to

jail for three months unless he can come quickly to a satisfactory arrangement with the payee.

At the end of 1981 the Government decided that the Finance Ministry should issue new regulations to control the exchangers. These referred to a resolution of the Council of Ministers in the early 1970s, which had never been published as a royal decree, and to the Banking Control Law of 1966, which had prohibited exchangers from carrying out banking activities but had been ignored.

In essence the new regulations placed the exchangers under the control of Sama rather than the Commerce Ministry, stipulated that they should maintain certain levels of reserves, and ordered them to close their current account operations.

In the view of the exchangers the last of these regulations amounted to an order that they should reduce their businesses to less than a quarter of their existing size. Muhammad bin Abdul-Aziz Mukhairin, who runs his family's Riyadh office, said recently: "... the purpose of the regulations is not to control the money exchangers; it is to drive them out of business."

He added: "There are other ways of controlling the money exchangers, if that is what the Government wants." The exchangers immediately

protested to the ulama, the Saudi religious and legal establishment, claiming that their operations were more in accordance with the Quranic prohibition of usury than the banks'. They do not seem to have obtained an effective response.

The exchangers, acting individually, told Sama that while they accepted the need for regulation they felt this could be carried out without their having to liquidate their current account businesses. They were popular with the Saudi public (partly because they stayed open much later than the banks and were less bureaucratic in their dealings) and they were an intrinsically Saudi institution which unlike most of the banks had evolved from inside Saudi society. In general, they said, the Government should seek to expand and develop the exchangers, not destroy them.

It is questionable whether Sama, or the king, who takes all important decisions in Saudi Arabia, would have been persuaded to amend the regulations in a major way even if all had proceeded smoothly in the exchange dealing community in 1982. As it happened one of the main exchangers went bankrupt in July of that year. This was Abdullah Salih Rajhi, a brother of Abdul-Rahman Salih and the owner of a fourth Rajhi exchanging business, known simply as the Abdullah Salih Al-Rajhi Establishment.

Abdullah Salih collapsed precisely because his activities had been uncontrolled. He had speculated massively in silver then, instead of cutting his losses, chased them. Several Western banks, including Kreditbank of Belgium, lost money and large numbers of foreign workers in the Kingdom were left with valueless drafts.

The exchangers were much embarrassed by the disgrace of one of their number and because since gone out of their way to claim that Abdullah Salih was a wholly exceptional case. The three respectable Rajhi companies were particularly embarrassed when Western banks and ordinary members of the Saudi public confused their names with the bankrupt establishment.

It now seems that all of the smaller exchangers will be obliged to close their current account businesses by the end of 1984 and revert to simple exchanging.

The controls they face

Issued by Finance Ministry, December 12 1981.

1. No licences to be issued for new money exchangers.
2. Existing exchangers to submit to Sama details of ownership, capital and branches, and copies of their licences. On the basis of these submissions and exchangers abiding by new regulations below Sama will issue new licences for (renewable) periods of three years.
3. Exchangers must have capital of SR 500,000 minimum, plus SR 50,000 per branch. Exchangers wishing to undertake money transfer must have capital of SR 2m minimum, plus SR 500,000 per branch.
4. Exchangers must maintain whatever cash reserve Sama specifies on deposit with banks nominated by Sama. (In practice the reserve for most exchangers has been 20 per cent of capital.)
5. Exchangers licensed to make money transfers must

keep with correspondents or with main offices full cover for transfers drawn on correspondents.

6. Exchangers may not open new branches without Sama permission.
7. Exchangers may not accept current accounts or deposits or make loans.
8. Any exchanger carrying out above operations to cease them within three years, in accordance with a timetable to be agreed with Sama. No new deposits or current accounts to be taken after a period of one year from the date of regulations.
9. All money exchangers to keep accounts in accordance with procedures to be set by Sama. Exchangers must provide Sama with copies of their annual balance sheet. Sama is entitled to request whatever other information it needs and to inspect exchangers' records. (In practice Sama has requested monthly statements.)

The bigger exchangers are talking to Sama about their future. Some have suggested that they should be allowed to run controlled current account businesses. Others, including Al-Rajhi Company for Currency Exchange and Commerce and Al-Rajhi Commercial Establishment for Exchange, have requested formally that they be licensed to become Islamic banks.

The latter arrangement would involve a revolutionary change in the Kingdom's banking system. Islamic banks, of which there are none in the Kingdom at present, trade with their assets instead of putting them on deposit and pay their depositors a share of their profits at the end of the year.

Formality

Given that much of the trade involves buying commodities on behalf of companies rather than lending the companies money to buy the same commodities, the difference between Islamic and conventional banking is partly a matter of formality. Even so it is thought that if an Islamic bank were licensed in Saudi Arabia it would either take much of the commercial banks' business or force the banks to change their way of lending.

Sama's position on the exchangers' future is that all

will be obliged to conform to the new law, although in practice it is known that Al-Rajhi Company for Currency Exchange and Commerce has been exempted temporarily.

In effect Sama is leaving open the possibility that some exchangers will be allowed to take themselves outside the scope of being given banking licences, either to operate as a type of secondary bank or become Islamic banks.

Some of the exchangers seem confident that they will be allowed to continue taking current accounts in some way. They include Al-Rajhi Company for Currency Exchange and Commerce, which has established a subsidiary in London called Al-Rajhi Company for Islamic Investments, and Alqosaibi Money Exchange Bureau, which says it has had no hesitation in spending \$5m on its computer network.

Exactly what form of compromise will emerge will probably not become known until a few months or even weeks before the deadline for the liquidation of the exchangers' current account business at the end of next year. If an agreement has not been reached by then a typically Saudi solution will be to extend the deadline.

Michael Field

Slower growth

CONTINUED FROM PREVIOUS PAGE

at a time when those made-in-bankers' heaven spreads have already been sharply narrowed. Interbank rates for marginal funds, to which most lending is pegged, have slid into the 8 to 10 per cent range after hovering in the mid to high teens for a year or more. The highly favourable funding mix of the deposits is slowing giving way as at least half the deposits are now in time rather than demand accounts. Operating

The growth market is probably the "middle" or "second tier" market of the small to medium sized companies in the manufacturing, downstream or consumer services industries. But the lack of a solid track record or management sophis-

tion, coupled with the higher odds of bankruptcies in a slower economic environment, is making the banks cautious. At least one Saudi bank, with deep inroads into the middle market of small joint merchants or companies, is now experiencing serious difficulties with its loan portfolio.

There is, at least on paper, plenty of rivals to lend. The domestic banks have always been flush with funds and, in search of good credit risk, have often placed half their assets offshore for lack of elsewhere to go.

The problem has been exacerbated by the Ministry of Justice edict forbidding the use of property mortgaged as

collateral on loans. The banks have devised schemes of manoeuvring around the ruling, but they are clearly in a legal no-man's-land and it is having an impact on their credit evaluation process. Indeed, credit assessment is quickly becoming the single biggest issue facing the banks in 1983.

Despite these difficulties, the development of the domestic banking system carries enormous implications for the offshore banks in Bahrain that rely to a large degree on rial business. "One can have doubts about fostering the development of institutions designed to promote capital outflows," commented Sheikh Mohammed Aba Al Khail, Saudi Finance Minister, at a conference in Dubai on banking in February 1982. Few

COMMERCIAL BANKS IN SAUDI ARABIA (in millions of riyals)									
Rank	Net profit		Total assets/ liabilities		Total deposits		Loans or advances		1981
	1980	1981	1980	1981	1980	1981	1980	1981	
National Commercial Bank	478	591	31,030	41,457	28,967	32,495	12,246	15,144	
Riyadh Bank	453	512	14,068	24,178	11,011	17,474	5,418	8,289	
Saudi French Bank	36	194	5,086	6,282	4,789	5,103	2,287	2,827	
Saudi American Bank	109	280	7,666	7,581	6,277	6,431	4,394	4,042	
Saudi Cairo Bank	117	121	5,592	5,311	4,234	5,679	2,849	3,058	
Saudi Dutch Bank	76	121	3,566	5,478	2,964	4,557	1,929	2,149	
Saudi British Bank	96	115	4,347	5,102	3,538	4,239	1,762	2,177	
Arab National Bank	148	217	3,281	4,261	2,871	3,393	1,435	1,570	
Al Fajra Bank	53	87	2,297	3,184	2,903	2,844	1,107	1,233	
Saudi Investment Banking Corporation	35	37	4,182	4,905	3,154	4,604	1,646	1,518	
† 15 Months. Source: FT.									

Gulf bankers have forgotten his indication of official Saudi thinking.

The growing confidence and competence of the onshore banks, coupled with the growing regulatory prowess of SAMA, to keep riyals onshore, bodes well for the future of the suitcase bankers.

Patrick McGovern

3:04

21:04

13:04

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The kingdom is essentially pro-business but it can prove a costly trap for the uninitiated, Edmund O'Sullivan reports

How to make the most of the land of opportunity

HAVING A working knowledge of Saudi Arabia's labour and commercial laws and an understanding of the Sharia, which ultimately governs the conduct of all individuals and institutions, is just the starting point for a newcomer to the kingdom's business circles. The unwritten rules about doing business can be equally important.

and most can only be learned through experience. Saudi Arabia is essentially pro-business, and its commercial code is designed to help rather than hinder the activities of the private sector. Promoting free enterprise is one of the cornerstones of the kingdom's development programme. The modernisation drive

is also designed to be a national experience, and government is quite explicit about its bias in favour of local over foreign companies. This has become more important in the wake of the slump in oil revenues as the state moves to protect Saudi firms from the worst effects of the recession. Because Saudi Arabia only

became a major element in world trade quite recently, laws governing companies are constantly being refined and updated to take into account the rapidly changing needs of the economy. Tax, capital transfer, insurance and bid and tender policies are revised frequently and mainly to the benefit of the private sector.

The Government's attitude to foreign investment is among the most positive in the Middle East and is defined in an industrial policy statement published in February 1978:

"The Government welcomes foreign capital as well as foreign expertise and invites their participation in industrial development projects in co-operation with Saudi businessmen. The Government... assures investors that it will always avoid imposing any restrictions on the entry and exit of money to and from the kingdom."

Eight years later, the view of how foreign companies fit into the development programme remains essentially the same, though there are signs of disillusion with some of the practices of non-Saudi businesses, particularly their unwillingness to allow national companies to play a larger role in their activities in the kingdom.

Tough

The tougher approach was seen again this spring. "We have warned our foreign friends the contractors that this negative attitude towards Saudis will force the Government to pass laws to make it harder for them," Deputy Commerce Minister Abdul-Rahman al-Zamil said in a recent interview. His comment followed a royal decree compelling companies to subcontract at least 30 per cent of projects they work on to Saudi-owned firms.

It is unlikely action will be taken to reduce the incentives to foreign business investing in Saudi industrial projects. These include Government help in setting up factories, subsidies, exemption from custom duties, a tax holiday on the overseas' investors share of profits, the provision of serviced sites in the kingdom's growing number of industrial estates and preferential treatment to local manufacturers in the award of state contracts. You do not have to invest in the kingdom to do business there. Initially, most companies work directly supplying customers, without representation



One company doing very good business in Saudi Arabia is Daimler-Benz. This model is now manufactured in Jeddah by National Automobile Industries, a joint venture between Daimler-Benz and Jeddah. Saudi Arabia has a large truck population—bigger than Britain's—and Mercedes has 70 per cent of the market.

in the country. The advantages are that the cost of having staff or agents working on your behalf are avoided. The disadvantages, however, are considerable. First, the Government is taking a tougher line with companies failing to work through a Saudi agent. Probably more important is that arms-length business with Saudi Arabia is becoming increasingly ineffective because of competition.

The choice at this point is whether a company can afford to finance the cost of having executives working in the field. If the answer is yes, the next question is where should they be based?

Until the late 1970s, the majority would have plunged for frequent travel from outside the kingdom, even from head office. Some chose representation in a neighbouring state, particularly if they were UK-based because of easier visa requirements for Britons in Bahrain, the UAE and Qatar. This option was particularly attractive because of poor telecommunications and the high cost of housing in the kingdom at that time.

The disadvantages again include missing out on long-term and direct contact with potential customers. Obtaining visas, on the other hand, has become a minor problem. In the UK, applications are handled by the Arab Chamber of Commerce and visas can normally be obtained in about seven days.

Since the economy started expanding strongly again in 1979, being represented in the kingdom itself has become more important. Of course, it remains possible to travel on a business visa and stay in one of the growing number of first class hotels in Jeddah, Riyadh and the Al-Khobar area.

The cost of air travel plus hotels, and the premiums they impose for the use of the telex and telephones, can be enormous. Direct representation can take two main forms. The most popular is to make an agency agreement with a local company. Legislation covering the relations between a Saudi company and the foreign businesses it represents allows the two parties to come to a wide range of agreements. There have been moves to make it compulsory for foreign suppliers to bear more responsibility for products they sell in the kingdom. Commercial agency agreements open the door to the



The roof of the Pilgrim Terminal in Jeddah Airport, one of the first sights to catch the eye of many businessmen entering Saudi Arabia. The airport, which was completed in 1981, is one of a number of examples of striking modern architecture in the kingdom.

Saudi market; but there are many pitfalls. A well-respected agent may represent a large number of other foreign companies and will not have the time to nurture a newcomer. So it may be better to select a Saudi partner with a more limited range of interests. A small Saudi company will rarely have the nationwide network of branches or the commercial support facilities necessary to do business effectively. Commercial agency agreements should not be rushed into because they are usually difficult to terminate. Ending an agreement sometimes creates bitterness with the former partner, and suspicion in Saudi business circles.

The principal fiscal advantage is that a company doing business through an agent does not technically exist in the kingdom and is, therefore, not subject to corporate tax; but the arrangement will entail the payment of commissions, which can sometimes have little relation to the amount of work done on a company's behalf by its Saudi partner. There are, however, many examples of highly successful agency relationships. The other option is to set up a joint venture, in partnership with a Saudi company, which

would also act as agent for the overseas shareholder. More than 1,000 have come into existence, though most are small. Some, however, are among the largest Saudi corporations, including the E.A. Juffali & Brothers/Daimler-Benz venture, National Automobile Industries, leading suppliers of heavy trucks and the Japanese/Saudi joint National Pipe Company of Dammam, a joint venture plant involving Saudi and Japanese investors.

The principal disadvantage is having to underwrite the success of the company with money. The advantages include having much closer control over how a company's business is conducted in the kingdom. The most important is help provided by the government. As long as the Saudi equity stake is at least 25 per cent, the company is entitled to seek long-term, low-cost credit from the Saudi Industrial Development Fund (SIDF), though whether it will be granted is not a foregone conclusion.

Joint venture manufacturers, as Saudi companies, may also benefit from customs duty protection. So far, however, the Government has imposed tariff barriers selectively, usually when local companies are meeting at least 50 per cent of domestic demand. Duties range up to 25 per cent.

Even with such assistance, the joint venture approach is highly risky. A mistake could be made about the choice of business partner and market segment. Conflicts can and do arise between the foreign and local partner. Finding high-quality staff prepared to commit themselves to working for at least two years in the kingdom is a major difficulty.

All these factors suggest companies planning to do business for the first time should commission a detailed and realistic feasibility study. If the results should fail to be positive, plans to press ahead with such a project should be thoroughly reviewed. Saudi Arabia is still a land of opportunity for businessmen, but one that can become a costly trap for the ill-prepared and careless. Edmund O'Sullivan is news editor of the Middle East Economic Digest.

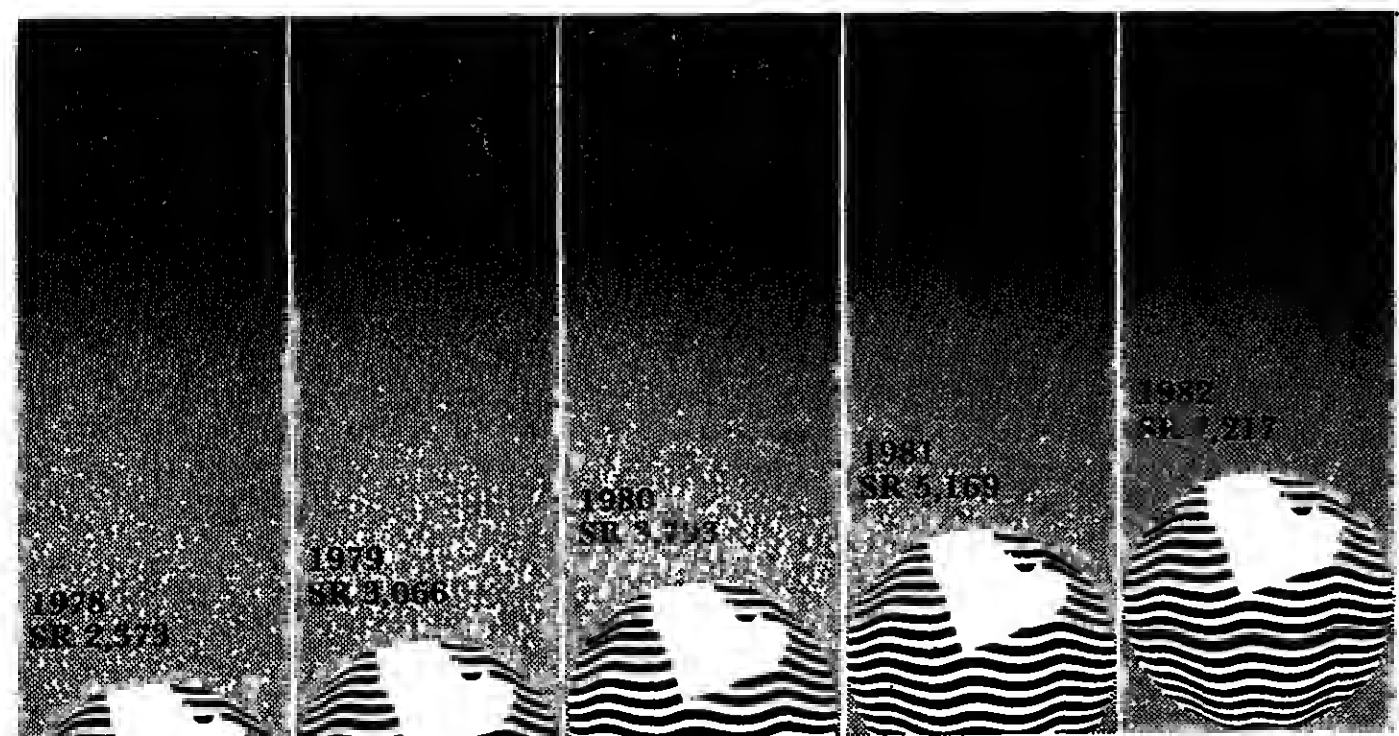
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Balance Sheet Total	2,373.00	3,066.00	3,793.00	5,169.00	7,217.00	+40%
Profit	9.52	29.88	53.36	86.51	110.58	+28%
Dividend	10%	15%	17%	18%	20%	+11%
Branches	7	8	9	11	17	+55%
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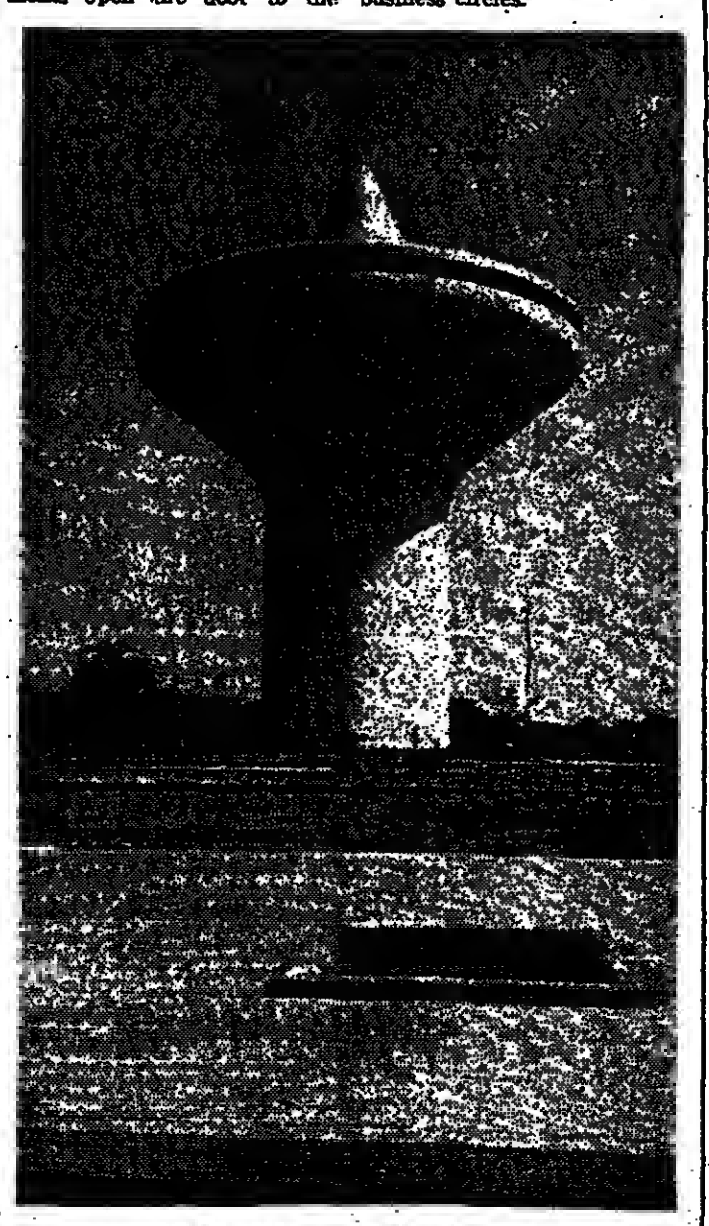
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Politics

SAUDI ARABIA XV

Progress made in defence but reliance on U.S. remains

FOR A few hours last January, a flurry of air activity over the Gulf kept the fighter squadrons at the King Abdul Aziz air base at Dhahran at their highest stage of alert. Iranian F4 Phantoms were buzzing the middle straits of the Gulf at low altitudes, just minutes within striking distance of the Ras Tanura oil refinery and export terminals. Their movements were closely monitored by the American crew aboard an E-3A Awac circling on the horizon, but positively identifying the aircraft as hostile was difficult and kept tensions high.

As it turned out, the Iranians were circling over a fellow pilot who had been downed in an air duel with the Iraqis and who had bailed out into the Gulf waters. But the incident and similar events preceding it, coupled with the renewal of fighting between Iran and Iraq in the Val Fajr valley has increased anxieties here and the awareness of military vulnerabilities.

Saudi Arabia has made some notable progress in improving its defence capabilities in the last year or more, albeit at tremendous expense. But its reliance on the U.S. as provider of arms and training, and as the "defender of last resort," has not diminished in the least. The continuing presence of the American Awac and tanker aircraft with the U.S. Air Force markings parked alongside the main runway at Riyadh's commercial airport serves as an acute reminder.

The Gulf remains a primary defence preoccupation, but the Saudis have very successfully reduced other regional threats on its long borders. Relations with Aden, for instance, have thawed considerably and the two countries will soon exchange ambassadors. The old threat of an Iraqi army sweeping in from the north has also diminished as the once militant sounding Iraqi leadership has all but embraced its conservative Gulf neighbours. And despite the heated rhetoric, few here believe Saudi Arabia poses a viable target for a pre-emptive strike by the Israeli air force. Sporadic Israeli intrusions into Saudi air space, however, including taunting direct overflights of the sprawling Tabuk air base in the north, are not only irritating but could one day result in an air skirmish.

Trumped up

There is still, of course, the scenario of the Soviet encroachment of the Gulf with its presence in Ethiopia to the west, South Yemen to the south, and Afghanistan to the east. It is a point the Americans rarely miss the chance to make. And although many of the younger Saudis wonder aloud whether this isn't an American trumped up fear, the upper echelons of the Saudi leadership do take it seriously enough to co-operate closely with the Americans.

The co-operation between the Pentagon and the Saudi defence establishment is extensive. There are at least 12,000 Americans here serving in some military capacity and companies such as Lockheed, Raytheon, McDonnell Douglas, the Vinnell Corporation and the U.S. Army

Corp of Engineers are well entrenched. It is probably only the sensitive political issue of American bases on Saudi soil, or at least access to existing facilities, that separates the two. American military planners stress the acute need of a forward military base for the U.S. Rapid Deployment Force if it is to be a credible deterrent against Soviet aggression. The U.S. must currently rely solely on its Indian Ocean fleet and its tiny base at Diego Garcia. The U.S. also has some limited access to air and naval bases in Oman and Kenya, but there are no equivalent Clark or Subic bays in the entire area stretching from Turkey to the Philippines.

The Saudis, while acknowledging the necessity of their

The Saudi military is divided into three separate commands each with its own functions and under the patronage of different princes. Crown Prince Abdul Aziz has retained full control over the tribal National Guard, which he has commanded since 1963. F-15s, the Minister of Interior, oversees the kingdom's 6,500-man internal security force, which has improved its capabilities over the last few years since the Mecca siege with the assistance of Western Gemen and French advisers. And Prince Sultan, the second deputy Prime Minister, is Minister of Defence and in charge of all three of the main branches, navy, air force and army.

Considering the long distances of desert terrain that separate the three main population and industrial areas, Saudi Arabia's

embarrassing holes in the air defence system. The Saudis have also closed these gaps, primarily caused by a lack of proper communication between the "eyes in the sky" and the "fists in the air." The phasing in of the sophisticated F-15s, and the introduction of advanced AIM-9L Sidewinder missiles, which allow pilots to fire from a much longer distance than previous missiles, has significantly raised the ability of the air force to detect and attack the oil facilities. While the oil fields are and will remain largely indefensible, the increased capability of the RSAF at least means fewer of the attacking aircraft would get back.

Missiles

The Navy is the smallest of the three services under Prince Sultan. It presently is composed of three U.S.-built corvettes and 22 patrol craft. It has on order several more corvettes and four French-built frigates with ship-to-ship missiles. Absorbing the new ships with Saudi Arabia's manpower problems will be difficult for the fledgling navy, its primary task to date seems to have been cruising along the beach north of Jeddah to warn bikini-clad Western women to cover themselves.

The Army consists of two armoured brigades of 280 French-built AMX-30 medium tanks and 150 American M-60 medium tanks. Two of the four infantry brigades are now fully mechanised with U.S. M-113 and French AMX-10P armoured personnel carriers and British-built Scorpion light tanks. There are also four supporting artillery battalions of 105 and 155 towed and self-propelled howitzers. The Army's continuing weak points are the lack of a co-ordinated training programme and the difficulty of absorbing so much sophisticated weaponry.

Unlike the Army, the National Guard has received extensive and co-ordinated training down to the company level by the 1,800 American military advisers provided by the Vinnell Corporation. The focus of attention has been the 6,500-man mechanised Imam bin Mohammed al Saud brigade. The Guard is trying to recruit enough personnel to build another mechanised brigade. There are another 11,000 men in the first or regular units, and two or three irregular units. The mechanised brigades recently held a 10-day training exercise in the desert some 250 miles west of Riyadh. Despite the great distance in moving the units from as far as Hofuf in the Eastern Province, they were said to have performed very well in two days of day and night manoeuvres. The Guard is said to have continuing discipline problems as the bedouin who make up its units often have first to discuss their orders. Once convinced, however, their loyalty and ferocious fighting ability are not questioned.

Patrick McGovern



An E-3A Awac: constant patrols near the Gulf coast

American defence umbrella, continue to prefer that military muscle be kept on the horizon and that the U.S. instead help to build the kingdom's own defence capabilities. The Saudis have spent in excess of \$100bn on their military in the last decade. They have easily the highest defence spending per capita in the developing world and they continue to be a lucrative market for British, American and French arms manufacturers despite a 19 per cent cut in budget allocations this year to \$27bn. Moreover, the Saudi taste for the newest weaponry is likely to stir another heated debate in the U.S. Congress, with the reported sale proposal of 1,200 M1 main battle tanks. The lion's share of Saudi defence spending, however, continues to be in building the most basic infrastructure facilities and on training. Giant military complexes at Tabuk in the north, Khamsa Mushayt in the south, and at Dhahran are being upgraded, and a \$7bn King Khalid Military City at the wells of Hafir al Ulat, near the Iraqi border is being built from scratch. Deep water naval bases at Jubail in the Gulf and just south of Jeddah on the Red Sea are nearing completion. Smaller naval facilities are also being built at Al Wajh, about 130 miles south of the Gulf of Aqaba on the Red Sea coast.

Michael Field examines the role of the National Guard

Social and military institution

THE Saudi Arabian National Guard is now being modernised by a U.S. team from the Vinnell Corporation. The intention is that by 1989 most of the guard will have been given infantry support weapons, such as mortars and anti-tank guns, and formed into three brigades.

Once the modernisation is complete the guard will be able to complement if necessary the regular army. Up to now the conventional view of the guard has been as a counter to the army—a deterrent to officers who might have thought of launching coups d'état.

This view was always too simple and too military. The guard was never purely a security force. Even now it is being modernised it is as much a social as a military institution. The guard had its origins in

the 1930s and 1940s, in the years after the campaigns of King Abdul Aziz which created Saudi Arabia. The king never paid his army on a regular basis but he realised that once his troops were finally sent home they would have no means of supporting themselves in reasonable prosperity. If the soldiers, most of whom were bedouin or villagers, were allowed to become impoverished it was feared they would become disaffected and rebellious.

It was decided that they should be given financial assistance by the Government when the Government had the money to do so. This assistance was to come partly in the form of simple development spending, involving the construction of schools, for example, and partly through money paid to

the amirs (chiefs) of the liwa (tribes) in which the king had fought. A liwa was a formation which carried a flag—literally the word liwa means flag—and was about 1,000 strong.

Summing up the guard's early days Brigadier A.M. a retired senior officer of the force, remarked recently that it was not meant to be a paramilitary force. It was more "a retired services' association such as they have in European countries."

The guard's organisation around the chiefs has continued since the 1950s. The system is natural in Saudi society. Most of the present chiefs are the sons or grandsons of men who fought in the armies of King Abdul Aziz. The rest are other important leaders of sections of tribes.

The chiefs are paid generously so they can provide hospitality for their soldiers and distribute largesse to them. The soldiers' salaries are channelled through the chiefs but their uniforms and rifles are provided directly by the Government.

Hereditary

At all levels service in the National Guard is hereditary. A man can serve in the guard until he is 60 or 65 then, when he retires, his son has the right to succeed him. While in the guard a man is not expected to report for duty every day. Almost all guardsmen run their own businesses.

Inevitably the guard is organised on tribal lines. The members of a liwa are from a single tribe. The tribes that are best represented in the guard are the Oudab, from the area between Riyadh and Mecca, and the Mutair, from the north-east of the kingdom.

An important purpose of the guard is to bring the bedouin to modern society, to settle them within reach of schools and medical care. The guard encourages its troops to improve themselves. In January this year there was a prize-giving ceremony for soldiers who had been able to memorise the Quran. On other occasions prizes are awarded to soldiers who have learned to read and write.

The guard's modernisation is not so much the conversion of liwas to heavier weapons and modern organisation as the creation of a new guard alongside the present tribal institution.

The new units are being formed partly from young volunteers in existing units and partly from recruits outside the guard. The units are composed of mixtures of tribes and even have in them townsmen from the Hijaz, in Western Arabia, who have never been members of tribes.

For the rest of this decade at least there will in effect be two national guards. Gradually members of the old guard will retire and in time the guard command may find it is able to persuade their heirs to enlist in the new guard or not join up at all.

In dealing with the bedouin, however, the Saudi royal family feels it can never be heavy handed. If large numbers of soldiers want to stay on in the liwas it will probably let the old guard remain for many more years.

"God knows exactly what they will do," remarked Brigadier A.M. in February this year. "They have a sacred duty to those who fought and died in the cause of God."

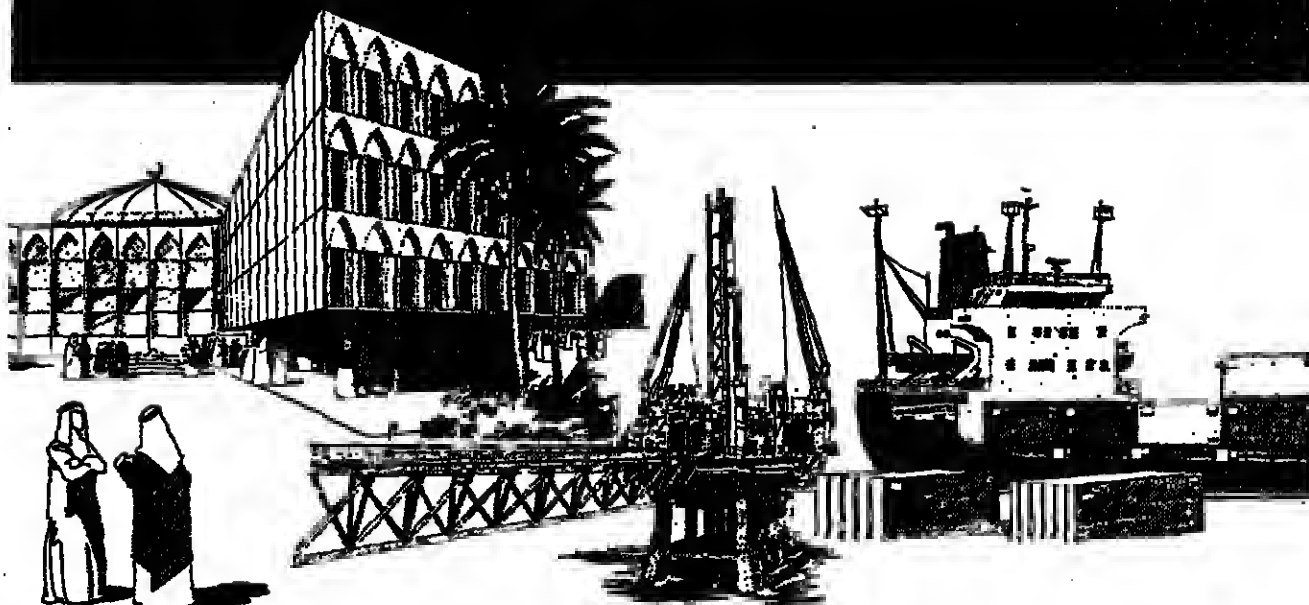
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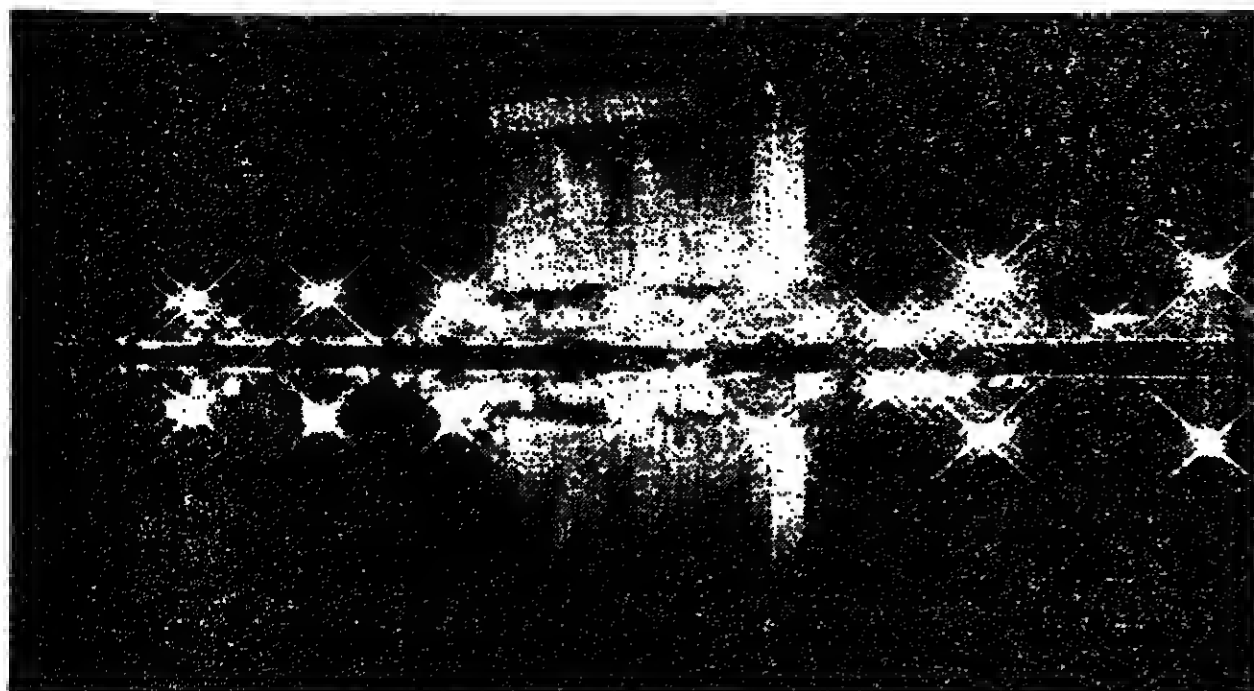
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SAUDI ARABIA XVI

Politics



All the King's men: (from left to right) Oil Minister Ahmed Zaki Yamani, Finance Minister Mohammad Aha al Khail, Foreign Minister Saud al Faisal and Crown Prince and First Deputy Premier Abdullah bin Abdul-Aziz

THE DECISION MAKERS

By JOHN CHRISTIE

SAUDI ARABIA today has a large, costly and routinely cumbersome bureaucracy which, in the manner of all bureaucracies, generates much paper and tends to distance the ruler from the ruled. In most modern countries this is of no great consequence; the ordinary citizenry do not generally expect to have direct contact with the leaders of the government. However, this is not so in the Kingdom, where access to the country's leaders—tribal sheikhs, regional governors or the King himself—has been a time-honoured and freely exercised right.

The traditional majlis, where authority sat in open court and anyone could come with their complaint or petition, still exists. But its original function has almost disappeared; instead the law courts exist to redress a wrong and the appropriate ministry official is to whom the petitions should now be addressed.

Familiarity

These days the majlis is often no more than a token occasion; an opportunity to see and be seen, a subtle reminder to the host of loyalty and support, a convenient means to display a respectful familiarity.

King Fahd, it is said, does not much like the majlis, regarding it as wasteful and too time consuming a method for the conduct of government business.

But if the mechanics of government have been adapted for a more modern society, the fundamental exercise of the central power has not. From the time when King Abdul Aziz bin Saud established his rule over all of present day Saudi Arabia, the house of Saud has collectively held the ultimate levers of power firmly in its hand. To paraphrase Mr. Truman's famous aphorism: the buck not

only stops at the Saudi royal family—it begins there as well.

Although members of the royal family are highly visible in their control of affairs they are a minority in the ministerial posts of the government. Out of the 22 ministerial portfolios, the royals have only six.

King Fahd is his own Prime Minister as well as head of state, and four of his brothers occupy key positions. Prince Abdullah, the Crown Prince and first deputy premier, also commands his beloved—and formidable—National Guard. Prince Sultan is second deputy premier, and has the Ministry of Defence and Aviation; Prince Nayef is Minister of Interior; and Prince Muteb heads the Ministry of Public Works and Housing.

The sixth royal in the cabinet is Prince Saud, son of the late King Faisal and a nephew of King Fahd, is Foreign Minister.

Royal princes proliferate in the second and third echelons of government, as governors of most of the 14 provinces, in the armed forces, the Intelligence Service, and any ministry or government body of significance.

The 14 other Ministers (Prince Muteb doubles as acting Minister of Municipalities and the Ministry of Health is vacant) are all commoners and come from a wide variety of backgrounds. Most of them hold their positions from their competence and ability and they remain as ministers by virtue of their performance.

Whereas the senior princes are described as having been educated at the Royal Court, tutored in chivalry, religion and politics, the commoner ministers largely have a more orthodox educational background.

The sober and cautious Minister of Finance, Mohammad Aha al Khail, has a B.Com. (Business Administration) from Cairo University and worked his way to his present post through

the administrative ranks of the civil service. He became Deputy Minister of Finance in 1970 (under a princely minister) until 1975 when he became Minister.

Ghazi al Gosaibi, in charge of the important Industry and Electricity Ministry, is an erudite academic (MA and PhD in International Relations) who is a noted Arabic poet and writes charming essays in English about bureaucrats and bureaucracy.

All the world knows the charismatic Oil Minister, Ahmed Zaki Yamani, with his elegant western suits and Gucci shoes. His international persona is matched by his education: Mecca, Cairo, New York and Harvard.

He too, began in the lower echelons of the civil service, in the Tax Department of the Ministry of Finance. Behind his sophisticated westernised image, Ahmed Zaki is a devout and learned Muslim, and has published an authoritative book on Islamic jurisprudence.

From the same clan but only distantly related to Ahmed Zaki, Mohammad Aha al Khail, the Minister of Information, has emerged as the public spokesman for the Saudi regime. Another academic (a PhD in geology, Cornell University) he is a former Rector of King Abdulaziz University. Now, Aha al Khail invariably makes the public announcements of Saudi policy and reports the deliberations of the Cabinet, all delivered with urbanity and in carefully chosen words.

The little known Alawi Darwish Karyal, the Minister of Post, Telegraphs, and Communications, is another FUD and has written studies on American oil policies. One of his books, in Arabic, is titled "How to Control Oil: a Struggle between East and West." He is also a competent technocrat whose ministry has brought to the kingdom one of the most sophisticated and modern communications systems in the

world. Hisham Nazir, the Minister of Planning, is the man who more or less single-handedly devised the first and second development plans. He can therefore claim with some justice to have been largely responsible for the vast and irreversible changes that have been wrought in the kingdom.

Hisham Nazir, a talented and worldly man, is said these days to be rather less energetic, and his impact on affairs is thought to be less than it was. But he fired the planning ethic firmly in Saudi Arabian philosophy.

Talent

This array of technocratic talent in the Saudi government can match the qualifications of comparable administrations anywhere in the world. Yet, for all their abilities, the non-royal ministers are not the formulators of policy in Saudi Arabia. They are the executives of government, charged to operate the now-complicated machinery of a modern state.

The apparatus of government in Saudi Arabia can be likened to a well-established, successful and autocratic family business. The royal family has the controlling shares, and selected members of it make up the board of directors. Non-royal ministers are senior managers, given much responsibility and with substantial delegated authority. But they are neither invited nor do they expect to take much part in the board room deliberations and decisions.

Policy is for princes and ministers are for mechanics, and the division of function is well understood and acceptable.

Moreover, the system demonstrably works very well: the corporate entity of Saudi Arabia has prospered and the nationalistic direction makes very certain that there is a wide and generous distribution of the profits.

Roger Matthews examines the relationship between Saudi and Britain

Friends despite the rifts

DURING the past few months the closeness of the relationship between Britain and Saudi Arabia has been highlighted by sharply contrasting economic and diplomatic developments. There has been both an inter-governmental row, which some British businessmen feared would threaten their commercial interests in the kingdom, and an altogether more important, if unstated, coincidence of view and action over the disputed stabilisation of world oil markets.

On individual days recently Britain may have overtaken Saudi Arabia as an oil producer. The two extremes for the role of Opec's swing producer have been well demonstrated since the autumn of 1980 when Saudi Arabia's oil output initially climbed to above 10m barrels a day to compensate for the loss of Iranian and Iraqi crude at the start of the Gulf War. But by the spring of this year it had slumped to 3.5m b/d and in early April there were days when it even dropped below Britain's average of 2.2m b/d.

Attention

Sheikh Ahmed Zaki Yamani of Saudi Arabia was the first Opec minister to draw public attention to Britain's pricing and production policies as pressure mounted on the Opec members for a cut in the reference price. Although there was plenty of under the table price cutting going on within Opec's ranks, no member wished to be the first publicly to break ranks with the \$34 reference price. Sheikh Yamani suggested that Britain, which is not a member of Opec and theoretically allows demand to set prices, should lead the way down.

The British National Oil Corporation obliged and pitched its new recommended prices at a level which would have allowed Opec to regroup around a new \$30 reference price. Had the British cut not been followed by a precipitate \$5 cut by Nigeria, the strategy might have worked. Instead there was to be a full-blown Opec crisis with Britain cast as key non-playing participant and London as the venue for the nego-

tiations, somewhat to the embarrassment of the British Government. Neither Britain nor Saudi Arabia wished for a free fall in oil prices, preferring, as befits major producers, a limited and orderly reduction. For its own political reasons, the British Government was to receive private to be seen co-operating with a cartel, even though the views of many cartel members were very similar to its own.

Yet after the Opec meeting had finally struggled to an agreement on a \$5 cut to a new reference price of \$29 and Britain had eventually reacted with a modest trimming of its own prices, the London Government was to receive private thanks, not least from Saudi Arabia, for its helpful attitude. Saudi Arabia would, of course, be even happier if Britain reduced its production but it is satisfied that while the threat of an oil price war remains it can count on London's stabilising influence.

While this highly positive development was taking place in Anglo-Saudi relations, it was all the more disturbing for British businessmen that far more publicity was being given to a wholly unnecessary row between the two countries over Palestinian representation. There is no direct evidence that the dispute caused even any short-term damage to commercial relations, but there was equally no doubt that the British community in Saudi Arabia found that it caused some friction in their day-to-day dealings with Saudis.

Not since the screening of "The Prince of Persia" which caused the British Ambassador in Jeddah to return to London for three and a half months, had there been such a rift in relations. Although their alarm turned out to have few commercial repercussions, the British business community genuinely feared that they were going to suffer.

Contained within the dispute was a useful lesson for future relations. The British Government's refusal to receive at ministerial level a senior official of the Palestine Liberation Organisation as part of an Arab

League delegation represented no change in British policy. However the manner in which the refusal was made caused deep offence. The later inclusion in the Arab League delegation of a prominent Palestinian who did not hold PLO office, coupled to red-carpet treatment for the visiting ministers, showed just how easily the problem could have been avoided.

The Saudis, no less than any other Arab League member, emphasised their pleasure at the dispute was made caused by quickly rearranging the visit which Mr. Francis Pym, the Foreign Secretary, had been forced to postpone.

Not only did Mr. Pym have lengthy talks with the senior members of the royal family in Riyadh in early April, but also was flown out into the desert for a lengthy chat with King Fahd.

One of the handicaps which Britain may have in its dealings with Saudi Arabia is that it is viewed in Riyadh as a generally sympathetic and friendly nation. The Saudi Government tends to expect more of Britain than it does other nations. It is accordingly far more disturbed when Britain adopts what it considers to be a hostile attitude that it would be, for example, if the Dutch government behaved similarly.

Independence

Equally, of course, the lion's tail is there to be pulled. British attitudes matter to Saudi Arabia but they are not so important politically, economically, or militarily—that Riyadh hesitates to demonstrate its independence from the old imperial power which all too readily policed the Gulf region.

Britain is now Saudi Arabia's fourth largest trading partner, after the U.S., Japan and West Germany. During 1982, British exports to the kingdom totalled \$1,360m, an increase of 20 per cent over the previous year. This followed two previous annual increases of 18 per cent and 17 per cent respectively. The trend seems unlikely to continue at this pace because of the Saudi budgetary cutbacks but British officials appear con-

fident that the market share can be increased further.

Britain's inability to win the largest Saudi infrastructure contracts is now seen as something of a blessing in disguise. Not only has this sector of the Saudi market passed its peak but it also requires the heaviest investment in the kingdom, and selected among the most vulnerable to budget cuts. Instead Britain's concentration on machinery sales, particularly for power generation, on the one hand, and high technology equipment and consumer goods is viewed as a meeting a strong and continuing demand.

However there is no doubt that the market is already becoming still more competitive, with the decline in the value of sterling an important bonus for British exporters.

Where there may be little to choose between different products in terms of quality and price, the Saudi businessman in the kingdom emphasises that it is the other apparently less significant factors which can make all the difference to winning orders. While Saudi customers may vacillate and not reply to letters, it is vital that the British exporter does not allow himself this luxury when some interest is expressed. Saudis like to deal with people who can make decisions without time-consuming references back to head office. Once they had made up their minds they expect their suppliers to provide instant action.

The predicted contraction of the Saudi market this year, and perhaps for some time to come, must however be measured against the extraordinary explosion in the rate of growth in no way diminishes the importance of the Saudi market in world trading terms. The strong British presence in the kingdom, with upwards of 35,000 expatriates and the second largest diplomatic representation, provides a powerful platform for a continuing strengthening of relations at all levels.

Experience Counts

Five years ago the Kingdom of Saudi Arabia launched an ambitious program to extend and improve its national telecommunications system.

Today, the objectives of the plan have been exceeded. The system has grown faster than any other national telecommunications network, while the quality of services has improved dramatically.

Recognizing that more than high-quality, ultra-modern equipment was needed, the Saudi Ministry of Post, Telegraph and Telephone called upon Bell Canada's century of operating experience to organize, operate and manage the fast-growing system. Today, the system is as advanced as any in the world.

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For many nations, Bell Canada International is the indispensable factor in the development of telecommunications systems.

